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# Royal Commission on Banking and Finance

THE CANADIAN FEDERATION OF AGRICULTURE.
CANADIAN IMPORTERS AND TRADERS ASSOCIATION INC.

Hearings held at

OTTAWA

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# I N D E X

VOL. 43



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VOL. 43

# ROYAL COMMISSION ON BANKING

# AND FINANCE

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Hearings held at Ottawa,
Ontario, on Friday,
September 21st, 1962.

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## THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

* Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

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Mr. H.A. Hampson - Secretary

* Mr. Gilles Mercure - Joint Secretary

* Absent.

Ottawa, Ontario,
Friday,
September 21st, 1962

--- At 9.15 A.M. the hearing resumed.

SUBMISSION OF
THE
CANADIAN FEDERATION OF AGRICULTURE

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APPEARANCES

David Kirk - Secretary-Treasurer, Canadian Federation of Agriculture.

W.C. Hopper - Economist, Canadian Federation of Agriculture.

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THE CHAIRMAN: I will call the meeting to order. We have this morning a submission from the Canadian Federation of Agriculture. Appearing for that Federation are: Mr. David Kirk, Secretary-Treasurer; and Dr. W.C. Hopper, the Economist representing the Federation.

I understand that you wish to read the recommendations?

MR. KIRK: Yes, Mr. Chairman.

THE CHAIRMAN: Or is there anything further you wish to present before we begin the discussions?

MR. KIRK: No, I think not. However, I did have one thing I wanted to say. Our president,

Dr. Hannam, had expected to be here and is very sorry that he is not, but he is leaving today for a meeting of the International Federation of Farm Organizations and Farm Producers, and has got into a jam.

The other thing I would like to make very clear about this presentation, seeing that Dr. Hopper and I are two employees of the organization here, is that we are making this submission on behalf of our executive who held a special national meeting from coast to coast to consider the recommendations in this submission; so it is, in all its essentials, their specifically approved submission to this Commission. I do not need to read any of this, of course, but I thought perhaps I might read the recommendations starting on page 3, to break the ice. Just whatever you prefer, Mr. Chairman.

THE CHAIRMAN: Yes.

MR. KIRK: Our recommendations are:

"1. A Federal policy for the granting of interest-free loans to farmers in cases of natural disaster should be instituted.

2. A special, flexible credit service, provided by the Farm Credit Corporation and operating to serve special needs of rural development programs should be provided.

3. Policies to better provide for

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3. Policies to better provide for

initial transfer capital for farmers entering farming, as well as for development capital, are needed. To be successful as a modern farmer adequate development capital is of major importance but the acquiring of this capital may often be difficult. It is recommended that a searching enquiry be undertaken into a policy of providing permanent types of mortgages or the issuance of long-term interest bearing securities for family farm acquisition.

4. An adequate policy of providing loans for housing on farms that does not require the farmer to mortgage his productive land and so tie up his access to long-term production credit, is required.

5. Intensive and continuing study of farm credit needs and their implications for the long-term development ofthe farm economy should be undertaken. The Farm Credit Corporation should have a competent and active research division.

6. Interest rates for Farm Credit Corporation loans and Farm Improvement Loans should not be raised.

7. The maximum interest rate limitation on banks should be retained at its present level.

8. It is also the view of the Federation that loans to specialized poultry and egg

initial transfer capital for further or entering farming, as well as for development capital, are needed. To an increasing degree the farmer adequate development capital is of major importance but the supplying of this capital may often be difficult. It is recommended that a thorough inquiry be undertaken into a policy of providing premium in types of mortgages or the issuance of long-term interest bearing securities for family farm acquisition.

4. An adequate policy of providing loans for housing on farms that does not require the farmer to mortgage his production land and so tie up his access to long-term production credit, is needed.

5. Extensive and continuing study of farm credit needs and their implications for the long-term development of the farm economy should be undertaken. The Farm Credit Corporation should have a strong research division.

6. Interest rates on Farm Credit Corporation loans and Farm Improvement Loans should not be raised.

The maximum limits [illegible] on loans should be [illegible] at the present level.

It is also [illegible]

enterprises should be the business of the Farm Credit Corporation rather than the Industrial Bank.

9. The Agricultural Rehabilitation and Development Act program should be actively pursued.

10. These should be created:

(a) A national economic planning body of government attached to the Cabinet.

(b) A National Economic Advisory Planning Council with responsibilities for informing the public about economic issues and conditions, as well as for advising the government, and with a secretariat of its own.

(c) Provision for more independent research in economic policy, including agricultural policy.

11. The national accounts should be developed on a basis that separates investment and current accounts.

12. The fundamental direction of our trade policy should be toward freer trade. The basis of our external agricultural policy should be to favour international consultation and agreement on prices, markets and surplus problems.

13. Legislation requiring disclosure of finance charges in the form of simple annual rate of interest, and for restricting

the rate that may be charged on consumer purchasing, should be enacted."

THE CHAIRMAN: Thank you very much.

COMMISSIONER HARROLD: Mr. Kirk, before we get into some specific questions on recommendations, I might start off by asking you a few questions on the first part of the brief, and the first one I would ask is in connection with recommendations as to farm credit policies, where it has been suggested that credit should be available to the family farm. Why encourage the family farm rather than have credit available to increase agricultural production, or something of that kind? Would you like to explain a little more why you make that distinction?

MR. KIRK: Yes. The submission of the Canadian Federation of Agriculture is that the predominant form of farming enterprise in Canada should be the family farm; and that farm policy, in so far as government policy affects the development of the structure of farming, should be so framed as to encourage the retention -- because that is the structure we have now -- of the family farm structure.

The reason why our people feel this -- and I think this is essentially a social belief and a social philosophy -- is that they believe that the independent operation of farms by owner-managers and people who own their farms and manage their farms and supply the bulk of the labour for

their farms, with the use of some family labour and a relatively limited use of employed labour, is the socially desirable form of economic activity. It is the one that they personally prefer and, preferring it, they think that it is a social good in itself and should be preserved. We also think that in the business of agriculture this form of enterprise is, and can be for the foreseeable future, a thoroughly economic form of economic activity from the point of view of the utilization of our natural resources.

COMMISSIONER HARROLD: The next question, then, has to do with a matter I think you mention in the brief on page 7. You recognize that a growing economy and an expanding economy is in the interest of agriculture, both for the products we produce and also because if there is a movement of the agricultural labour force from agriculture into other industrial activities, this is the best environment for that to take place in. Could you give us some idea as to what you think of the Canadian economy in the last few years, in that there has been a somewhat slower growth, and has this affected agricultural prices or a greater movement out of agriculture? Have you any figures on this particular aspect?

MR. KIRK: Yes, as I recall -- Dr. Hopper do you recall the figures on that, of the labour force development in the last few years?

DR. HOPPER I think we have something.

and a relatively limited use of employed labor is the socially desirable form of economic activity. [illegible] is the one that they, personally prefer and, preferring it, they think that it is a social good in itself and should be preserved. We also think that in the business of agriculture this form of enterprise is, and can be for the foreseeable future, an increasingly economic form of economic activity from the point of view of the utilization of our natural resources.

[illegible] then, has to do with a matter I think you mention in the brief on page 7. You recognize that a growing economy and an expanding economy is in the interest of agriculture, both for the product [illegible] produced and also because if there is a movement of the agricultural labor force from agriculture into other industrial activities, this is the best environment for them to take place in. Could you give us some [illegible] so that you think [illegible] the developing economy in the last [illegible] years, in that there has been a somewhat slower growth, and has this affected agricultural policies [illegible] a greater movement out of agriculture? Have you any figures on this particular aspect?

MR. [illegible]: Yes, as I recall -- Dr. [illegible], do you recall the figures on [illegible], of the labor force development in the last few years?

DR. HO[illegible]: I think a fair summation...

on that.

MR. KIRK: I believe that over a short period it is difficult sometimes to be sure, but I believe the figures demonstrate that with the higher level of employment there tends to be a slowing down of rate of decline in the farm labour force.

DR. HOPPER The average over the past 12 years is somewhere between 19,000 and 20,000 farm operators have left the farms; but last year, between 1960 and 1961, there were only 9,000. In other words, it has slowed down as a result of, I presume, lack of employment in urban industries. This may continue; it may not be as extensive in the future as it has been in the past.

COMMISSIONER HARROLD: How about the effect on prices? Have you any facts to support any statement on whether it has affected prices at all of agricultural products?

MR. KIRK: Certainly, you will not get a perfect relationship between what happens to your prices and the condition of the economy. So much depends on external markets, the weather, and so on. But, other things being equal, the lower level of economic activity in the non-farm sector will tend to put a greater pressure on the utilization of labour in agriculture, and will tend to keep production higher than it would otherwise be.

COMMISSIONER GIBSON: Assuming good employment conditions over a long period, how much further do you expect this process of decline in the number of farm units to go in the next two or three decades? With the present level of technique, and so on, how many farmers should you have in Canada, just to give an idea what the trend should be?

MR. KIRK: I do not really know. The truth is that I have no sort of authoritative estimate on this. Very obviously, there is a low point beyond which, if you are utilizing your land, the labour force does not drop. But the generally accepted view is -- and I think it is correct -- that there is a good deal of distance to go yet in the decline in the farm labour force, and I would expect perhaps down to about 77 per cent of the farm labour force before we are through. But it would depend a lot on whether as a nation we go in for producing for other countries increased amounts of livestock, or whether as a nation we do not compete and we go in for improving it. That will be a factor, how fully we utilize our productive capacity.

DR. HOPPER: There are still in Canada a great many small farms, many of which are uneconomic, and it is these marginal farmers on marginal farms that are going to decline, and I think this decline will continue, but perhaps not at the rate at which it has been in the past.

THE CHAIRMAN: Do you think there is something to be said for preserving the marginal farm, or should the economic forces take their course?

DR. HOPPER: I think they will take their course anyway. I do not think anyone reaching one way or the other is going to make much difference, it is going to continue.

THE CHAIRMAN: Do you include market gardening, or do you count every market garden as a farm?

DR. HOPPER: I think we include it in agriculture, yes.

THE CHAIRMAN: That is what I meant.

DR. HOPPER: Yes, certainly.

THE CHAIRMAN: So the number of farms in this country includes market gardening. This if, of course, usually a very small acreage per operator?

DR. HOPPER: Yes, but even some of the market gardens have pretty big areas.

THE CHAIRMAN: Yes, it varies a great deal, of course.

MR. KIRK: On the question of is it a good thing to keep marginal farms, it is certainly not a good thing to keep marginal incomes, low incomes. I think the answer to that is that we would never view with pleasure a condition that perpetuated a seriously disadvantageous income position on the part of significant numbers of people, because

we do not think this is a socially healthy thing.

THE CHAIRMAN: On the other hand, if a man has not very much capacity and if he went to the city he would deteriorate rapidly. Then, is it socially better to have him on a piece of land, out in the country, even though he makes a very small income, if he and his family are happy there? That is the "if".

MR. KIRK: Yes, that is right. If a person is earning in agriculture what he could expect to earn as a productive individual in non-agriculture then I would agree there is nothing wrong with this. But I would not agree, first of all, that you develop in agricultural areas unemployables. Just assume they are all in this position from an employability standpoint, and then get a position, from a social point of view, where an entire area was marginal, then you have an environment that is very unsatisfactory for the children of those people, and there is no reason to expect they are going to be unemployable or semi-unemployable, which is what you are suggesting.

THE CHAIRMAN: You are assuming the children would be better off in the city than on the farm. The father may be earning a slightly greater amount of money, but he is probably having to spend more for less. Is there something to be said for a certain amount of farming of that nature, which keeps people out of the cities and allows them to live a more healthy life, because

many of these people prefer that sort of life.

MR. KRIK: Yes, that is right.

THE CHAIRMAN: They are not adjustable to city life.

DR. HARPER: If that is true, I think they should stay where they are. If they are happy there, on the farm, and would not be happy in the city environmnent, then they should stay.

THE CHAIRMAN: You cannot just compare the income.

DR. HARPER: There is a substantial number of farmers who have non-farm income. When we made the study for the Senate Committee on Manpower and Employment we were told in some questionnaires that something in the neighbourhood of 40 to 50 per cent of the farmers in the Province of Quebec have non-farm income as well as farm income. So this is growing very rapidly.

COMMISSIONER BROWN: Would that be employment on woodlots?

DR. HARPER: Yes, some of them work in the bush, and others are doing all kinds of jobs, working in the pulp and paper mills on a part-time basis.

THE CHAIRMAN: Some are school teachers and have a little farm nearby.

DR. HARPER: Yes, and many of their wives work.

MR. KIRK: From a policy standpoint, on this question the position our Federation takes is

that, first of all, whether or not people stay on the farm under any given conditions is very much their own business. We are not in favour of the compulsory movement of farmers. I think that is a large part of the answer to your question, from a policy standpoint.

The other thing though, of course, is that our organization does not view agriculture as being an industry that should be a repository for very large numbers of low income people, with a social theory along with that that there is something satisfactory and all right about this condition and that even though their incomes are low, because they are on the farms they are happy. I do not think we subscribe to this idea: we do subscribe to the value of farm life, given adequate conditions for it.

COMMISSIONER BROWN: As a matter of interest, on Table II I notice that while the number of male people in agriculture has been going down steadily in the last seven years, there has been an increase in the number of females. There must be some simple explanation for this, and I would be grateful if you could give it to me.

MR. KIRK: My guess -- and I say "guess" because I do not know from an actual standpoint of knowing research information on this specific point -- my guess would be that this is where the lack of employment opportunities has particularly turned up, in this female employment sector. Of

them, first of all, whether or not people [illegible] on the farm under any given conditions is very much their own business. We are not in favor of the compulsory movement of farmers. I think that is a large part of the answer to your question, from a policy standpoint.

The other thing, though, of course, is that our credit [illegible] does not [illegible] agriculture [illegible] on an [illegible] that would be [illegible] for very large numbers of [illegible] people, with a [illegible] along with [illegible] that there is [illegible], and all kinds of [illegible] and [illegible], though their income [illegible] they are [illegible] the farms they are [illegible]. I do not [illegible] to this [illegible] to the [illegible] of land [illegible], we [illegible].

CHAIRMAN [illegible]: [illegible] of [illegible], [illegible] people in [illegible] has been [illegible] the [illegible] of [illegible] single [illegible] of [illegible], I would be [illegible].

MR. KIRK: [illegible] do not know from [illegible] [illegible]

course, in some areas of female job activities in the city there has not been such a very desperate situation, from the point of view of stenographic help; but remember that a lot of the females on farms have not had easy access to commercial courses, and this kind of thing, that fits them for that work. They have not the easy access of female city dwellers.

COMMISSIONER BROWN: The female labour force in agriculture was 132,000 in 1949, 50,000 in 1953, 35,000 in 1954, and it is now 50,000. Are these people working for some type of farming which is particularly adapted to female labour, such as berry-picking, poultry raising, and so on?

MR. KIRK: No, I would not think so. Frankly, I do not know. It may be related to an increase in the female population. We had a post-war period with a larger number of young people. Probably there is some reflection of that in this table.

COMMISSIONER BROWN: Obviously it is nothing which stands out at all.

MR. KIRK: No.

COMMISSIONER HARROLD: On page 12 of your brief, the second last paragraph, the following statement is made:

> "No other industry has had the increase in productivity per hour of labour as has agriculture."

Is this for a specific period or how is the comparison made? Would you expand a little on that particular sentence?

MR. KIRK: First of all, this relates to the rate of increase and not to the final, absolute level of productivity. We are not suggesting that the final level of productivity is higher in agriculture than in the rest of the community. I want to make myself clear on that. In the 1960 Canada Year Book, page 436, one reads:

"The increase in productivity per man in recent years has been greater in agriculture than in any other Canadian industry, having risen 48 per cent from 1946 to 1957. In manufacturing the increase was about 40 per cent; in transportation about 34 per cent; in mining about 31 per cent, and in trade only about 7 per cent."

Now, it is that kind of calculation and that evidence we are using for our statement.

THE CHAIRMAN: How do you estimate the number of hours of work that is done on a farm?

MR. KIRK: We did not make this statistical calculation and I am afraid I am not in a position to back it up technically at all.

THE CHAIRMAN: I did not know they had the eight-hour day on the farm yet, or have they? They may have in some places.

MR. KIRK: I do not recall the figures but surveys have been made from time to time as to hours worked on farms, and whereas these surveys have shown a decline the hours of farm labour still are considerably greater than the hours in non-farm labour activities.

THE CHAIRMAN: That would be for employed labour?

MR. KIRK: And for self-employed labour as well, calculated on a survey basis.

COMMISSIONER GIBSON: Would there not be a wide variation across the country as to increases

in production? In other words, I would imagine that in some parts of the country the increase in productivity would be very much greater than in others?

MR.KIRK: Yes. There are distinct differences, sometimes by provinces and sometimes by regions, and also I think as between commodities. But I am not too clear on this.

COMMISSIONER GIBSON: Where would the greatest increase in productivity be?

MR. KIRK: Regionally speaking, the greatest increase has been in the province of Quebec.

DR.HOPPER: Yes.

MR. KIRK: I think the grain crops as opposed to livestock, particularly as opposed to the dairy industry, would tend to show a greater increase in productivity.

COMMISSIONER MACKINTOSH: How about cows and poultry?

MR. KIRK: Definitely.

DR. HOPPER: I am sorry that I do not have the figures, but there has been an increase in eggs per hen and in milk per cow. There certainly has been an increase in productivity there. There has also been some increase in beef cattle. They have developed better feeding and breeding methods and this has resulted in a higher production of good beef. This is so in almost every field. I presume that wheat production is higher provided there is the proper kind of weather. Better varieties and more fertilizers have been very important factors. I think we have shown in our brief that the varieties of fertilizers have been increased

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and that there has been and increase in the varieties of pesticides for the control of disease. All these factors contribute to a higher rate of production per man.

MR. KIRK: These figures are on labour productivity and not the overall concept of productivity, which is a very different thing.

COMMISSIONER GIBSON: This is value of output per head on a constant dollar basis.

DR. HOPPER: Yes.

COMMISSIONER HARROLD: As I understand it, productivity and credit are related. On page 12 of your brief you state:

> "Inadequate credit is one of the main factors -- if not the main factor -- which prevents farmers from expanding their farm operations to economic proportions."

This subject is discussed for another paragraph or so. Now, if credits were generous and easily available, might not the additional yields in productivity have some effect on lower farm prices, and where is the point at which this happens? What would you suggest might be the relationship between more credit and lower prices, especially in a country such as Canada or the United States?

MR. KIRK: It has often been suggested that since we have a condition of chronic tendency to overproduction and a downward pressure on the labour force in agriculture, that the more you increase productivity

... that there has been and increase in the varieties of pesticides for the control of disease. All these factors contribute to a higher rate of production per man.

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MR. KIRK: It has often been suggested that since we have a situation of chronic tendency to over-production and a continued pressure on the prices, [illegible]

the worse off you are. I think this is the kind of area of thinking that you are referring to, Mr. Harrold. It is the view of our organization, broadly speaking, that it is not a good line of policy to take to hold up the development of technology and the increase of productivity in agriculture either in the national or farmers' interest in the desire to create in this way some kind of a limitation on the amount of production.

If you were to imagine what would have happened by a strict application of such a policy over the last 20 or 50 years, it would be pretty evident that this would have been a disastrous policy for Canada and the farmers generally. You would still have a very low productivity group of farmers. At the same time I think in the short run it is true that rapid advances in new and improved methods can aggravate the farm price difficulties. However, this is a short-run thing and we just cannot think that the fear of this happening and the consequent avoidance of it is a sound basis for farm policy. I am not sure that we understand just as well as we might, when we speak of economic research, the dynamics of agricultural adjustment and the exact impact on all the farmers of policies to promote increased productivity through credit or extension or other means.

I do not believe that this isvery well understood. This summer during a workshop of agricultural economists on the dairy industry this very point arose. There was a difference of emphasis on the part of some of these economists on the importance of pushing hard

for improved technology. Some felt that under present-day conditions of the dairy industry, with which I think in a broad way you are familiar, and under this programme, that particular emphasis on technological advance is not indicated. Others felt that in spite of these conditions the thing today was to push forward hard on technology, that it was this which would most rapidly in the final analysis improve the position of the farmer.

THE CHAIRMAN: Yes, but there are two aspects to this. It seems to me that the first real question in connection with farm credit has to do with a policy to increase credit beyond the present facilities to such a point that people are being encouraged to enter into farming operations on a very narrow margin. If they have a bad year then they have relatively large interest payments to meet, no matter how much they are subsidized unless this is given to them interest-free. Should we be encouraging that sort of farming and encouraging people to engage in that sort of activity at a time when the gross product of the farms is such as you have described, when the productivity is ahead of the effective demand? It is quite a different thing, encouraging farmers to improve their methods, which incidentally would increase their productivity, of course, but it may be that the greater the productivity of the efficient farmer the greater the number of marginal farmers who would go out of business.

COMMISSIONER BROWN: Could I ask a question in the same context? Are you looking more towards

of [illegible] embryology. [illegible] sanitary conditions of the dairy industry, with which I think in a [illegible] way you are familiar. And under this program, that particular emphasis on the [illegible] advance is not indicated. Others felt that in view of these conditions the thing today was to push forward along [illegible] technology, that it was this which would most rapidly in the final analysis improve the condition of the farmer.

THE CHAIRMAN: Yes, but there are two schools to think. It seems to me that the first real question in connection with farm credit has to do with a policy to increase credit beyond the present facilities to such a point that people are being encouraged to take on a farming operation on a very narrow margin. If they have a bad year then they have relatively large interest payments to meet [illegible] and they are [illegible] unless this [illegible]. [illegible] should we be encouraging that sort of farming and encouraging people to engage in that sort of activity [illegible] while the [illegible] of the [illegible] as you have described, where the [illegible] of the effective demand [illegible] today, encouraged by farmers [illegible] which incidentally would increase their productivity, of course. [illegible] of the efficient farmer the quicker [illegible] of marginal farmers who would go out of business.

[illegible]

The [illegible]

enabling a farmer to increase his productivity on his farm or are you looking towards improvements to enable a farmer to look after not only his farm, but also a farm that is presently operated by another farmer? In other words, are you looking forward to increasing the absolute amount or increasing the amount per farmer and reducing the number of farmers; in other words, a better share for each one that is still farming or a larger overall productivity?

MR. KIRK: In terms of use of land there would be some cases where increased land area would have to be available to the farmer if he is going to do the job of increasing his productivity. There would be other cases where this is not so true, where the intensification of the use of his present land would be necessary, and there would be still other cases where land is not the critical factor as perhaps in the case of egg production.

We have endeavoured to outline in our submission that we do not have a good picture of the returns to capital and the marginal returns to new capital in agriculture, but our judgment is that for new capital in agriculture the returns to these are fairly good. The second thing is that in none of our policies do we propose to plan and manage the entire agricultural economy in a detailed way centrally, so you have the situation as a result where from the point of view of any farmer the crucial thing for him is opportunity. As some farmers will be unable to take the opportunity that is given by this credit, others will not for various

[illegible] a farmer to increase his productivity on his [illegible] or are you looking [illegible] improvements to enable [illegible] farmer to look after not only his [illegible], but also a farm that is presently operated by another farmer. In other words, are you looking forward to increasing the absolute amount of [illegible], the amount per farmer and reducing the number of farmers, in other words, a better [illegible] for the [illegible] resulting in a larger overall productivity?

MR. [illegible]: In terms of how we [illegible] there would be some cases where increased land base would have to be available [illegible] the farmer [illegible] to do the job of increasing [illegible] productivity. There would be other cases where this is not so true, where the intensification of the use of the present land would be necessary, and there would be still other cases where [illegible] the [illegible] perhaps in the case of [illegible].

[illegible] question that we do not have a good picture of the [illegible] to [illegible] and the [illegible] in agriculture, [illegible] is [illegible] in [illegible] and. The second thing is that in some of [illegible] policies [illegible] propose to [illegible] agricultural economy in a [illegible] way [illegible] to a [illegible] the point of view of any farmer [illegible] a some farmers will [illegible] the opportunity [illegible] is given by this country, [illegible]

reasons wish to. But our point is that the opportunity should be there. The productivity potential is there and we think that from the national point of view of the utilization of the country's resources and from the point of view of the farm people and their children, the best policy is to create adequate opportunities for them if they wish and if they can to invest and improve their productivity where it is running below what it should be. I do not know whether this altogether answers your question, Mr. Porter.

THE CHAIRMAN: A little later on I shall have a few questions to ask you dealing with some of your particular recommendations, and that will give us an opportunity to enlarge upon this discussion a bit.

COMMISSIONER HARROLD: Changing the questioning a little bit, Mr. Kirk, I believe on page 15 of your brief it is indicated that the greatest percentage of loans to farmers is advanced by the government through the Canadian Farm Credit Corporation. There is a table on page 15 of your brief which gives information with respect to loans to farmers by government agencies, the Farm Credit Corporation, and through private investment associations, life insurance companies, and so on. The table indicates a very small percentage of loans made by these organizations. In other words, most of the credit is advanced by the government through the Canadian Farm Credit Corporation, and so on. Has this always been the case? In your brief there are several comments about referring credits through govern-

ment agencies. Is there a reason for this or do you see this situation changing in the future? What has been the history of it?

MR. KIRK: My general understanding of the history, of course, is that in the earlier periods of settlement and the development of agriculture in this country there were not these government programmes. The federal Farm Loan Board, the predecessor to the present Farm Credit Corporation, did not do as large a percentage of the total business as the Farm Credit Corporation is doing today. There has been a very sharp increase in the total of credit advanced. Mind you, this figure of $399 million for the total of long-term credit does not represent all the credit on which we have received information in reports from credit and loan companies and provincial and government departments. As we say near the end of page 15 of our brief, the total of these long-term loans is about $650 million to $750 million. This is, of course, a larger figure than the $399 million. The reason for this is that there is still a very great deal of private credit involving, for instance, transfers from fathers to sons and local people lending money on mortgages. This has been a very common form of farm financing in Ontario, for example, where loans are made by people in the district. So you have still quite a large percentage of the mortgage credit given by other than government agencies.

COMMISSIONER HARROLD: Yes, that is true, but the corporations such as insurance and trust companies

hold about 3 to 5 per cent of the loans, which is a very small proportion, is it not?

MR. KIRK: That is right.

COMMISSIONER HARROLD: Do you see this increasing at all in the future?

MR. KIRK: I do not see it increasing as long as there is more satisfactory credit at a better interest rate available from the government agencies.

THE CHAIRMAN: The government rate is 5 per cent?

DR. HOPPER: Yes.

THE CHAIRMAN: That is a lower rate than could be obtained from private sources.

MR. KIRK: Yes, that is correct.

THE CHAIRMAN: Perhaps the explanation for the private credit transactions is that there are certain conditions which must be complied with under government loans. Is that not so? In other words, farmers must meet certain qualifications in order to get a loan?

MR. KIRK: That is right.

THE CHAIRMAN: They have to be satisfied with the capacity of the farmer to make use of the credit properly, and so on?

MR. KIRK: That is right, and they have to be satisfied that as far as they can tell it is an economic unit they are setting up.

THE CHAIRMAN: So that they make quite an exhaustive inquiry before they lend the money, whereas it may be for certain purposes they could get money more easily, often at a somewhat higher interest rate, by going to some lending company or to some individual whom he knows; there must be a great deal of that?

MR. KIRK: Yes, and some do.

COMMISSIONER HARROLD: I would like to refer again to farm ownership. Going on the problem of selling farm lands today, have you any information telling us whether it is easy to sell or hard to move, and also the price? Has there been any change in prices in general, geographically? I notice some figures here that suggest they have increased somewhat, but how fast?

DR. HOPPER: I don't think we have any particular information on that.

MR. KIRK: We haven't brought any particular data.

DR. HOPPER: I think it is increasing, but I don't think we have any actual figures on what increased prices the farmers are selling at.

MR. KIRK: I think in a general way we do know that it is true that over the last ten or fifteen years the price of farm land has been, I would say, quite remarkably firm and strong and has gone up.

THE CHAIRMAN: Would that be due to some extent to the credit arrangements? The farmers can get credit at 5 per cent and you go up to 75 per cent of the value, don't you, in some cases?

THE CHAIRMAN: So that they make quite an exhaustive inquiry before they lend the money, whereas it may be for certain purposes they could get money more easily, often at a somewhat higher interest rate, by going to some lending company or to some individual whom he knows; there must be a great deal of that?

MR. KIRK: Yes, and sure do.

COMMISSIONER [illegible]: I would like to refer again to farm ownership. Going on the problem of selling farm lands today, have you any information bearing as whether it is easy to sell or hard to move, and also the price? Has there been any change in prices in general, geographically? I notice some figures here that suggest they have increased somewhat, but how fast?

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THE CHAIRMAN: Would that be due to some extent to the credit arrangements? The farmers can get credit at 5 per cent and you can go up to 75 per cent of the value, don't you, in some cases?

MR. KIRK: Yes.

THE CHAIRMAN: Wouldn't that tend to increase the sales price of farm properties?

MR. KIRK: Well, I think that it is more due to the fact that with more people continuously wanting to farm then, in fact, will be able to farm, that the price of land tends to be shoved up to pretty much the maximum which the farmer can manage to get along on.

THE CHAIRMAN: But if the credit facilities were less and the man would have to raise three-quarters of the amount of the cost of the property, it would tend to reduce the price level, wouldn't it, to farmers, the fewer people who could afford to buy a farm?

MR. KIRK: I think it would have this tendency, yes.

THE CHAIRMAN: So, these credit arrangements cut two ways. To some extent they have a slightly inflationary effect.

DR. HOPPER: And price supports do tend to increase the value of land as well.

THE CHAIRMAN: Price supports?

DR. HARPER: Yes.

THE CHAIRMAN: Well, all subsidization is apt to do that.

DR. HOPPER: Sure.

MR. KIRK: I think one of the problems of credit policy is whether your objectives are undermined by an inflation of land values. This is one of the reasons and one of the good reasons for having a fairly

stringent examination and supervision of what you do through the government agency, because it does tend to weaken this inflationary pressure and then, of course, the other thing is that very often it is the father of the man who is buying it who is getting the money from it and you know it is not altogether undesirable there should be a reasonable transfer of value to the seller, because very often this is the money that is going to allow him to buy. You have there both farmers; the one that sells and the one that buys.

THE CHAIRMAN: It is the one that buys who can afford to pay the debt?

MR. KIRK: Yes.

COMMISSIONER HARROLD: It is 75 per cent of the value in relation to the Act of May 16, and you use the word "value" there. Have you any idea of the procedure they use as the assessed value or the so-called market value? What is the usual standard that you use?

MR. KIRK: It is not the simple market value appraisal. I am not sure precisely what their appraisal techniques are, but I understand that there is a real element of productive value that they try to take into account in their appraisals in the Farm Credit Corporation.

THE CHAIRMAN: They make a thorough examination of each farm?

MR. KIRK: That is right.

THE CHAIRMAN: And take into consideration the measure of the land and everything else; the situation

that refers to markets, and so on.

MR. KIRK: There are two sections to the Act, and the inquiry is much more thorough under what is known as part 3 of the Act, there is a much more thorough going inquiry into the plans of the farmer and his ability to farm because there, in connection with the 75 per cent, the security they can take in includes machinery and livestock as well as buildings and land, and under these conditions they take on much bigger responsibilities for supervisory methods and investigation.

COMMISSIONER HARROLD: These are all the questions I have, unless the Commission has some.

COMMISSIONER BROWN: Just following along the same pattern, I notice that on page 18 that these are provincial credit legislation figures, and that the province of Quebec accounts for two-thirds of the total. This seems rather a large figure, and I looked up Appendix B, which outlines the terms of these provincial credits and I see that in Quebec there are three forms, apparently, and that under the Quebec Farm Credit Summary regular loan, they can get $15,000 or 80 per cent of the appraised value of the security, and under an established loan there is another $15,000 or 90 per cent of the appraised value of security, and that these loans are at 2½ per cent, which is considerably lower than the 5 per cent we were discussing and also this percentage is considerably higher than the 75 per cent which we were discussing. This would obviously account for a greater attractiveness

in Quebec.

My question is have you any figures to show that this has led to greater productivity in Quebec or has it had other perverse effects?

MR. KIRK: As I mentioned earlier, the rate of productivity in Quebec has been increasing at a more rapid rate than generally in the other provinces. I think it has been at a lower level and I think it still is than, for example, Ontario, but it is catching up.

Now, what effect the farm credit arrangements have had, that I don't know. I think in part in would be in this modern world perhaps an inevitable result that sooner or later there would be an upsurge of realization of the potential for productivity and a taking advantage of it. No doubt the farm credit provisions have helped a good deal in that.

COMMISSIONER BROWN: If you could show a definite correlation between these it would build up your whole thesis.

MR. KIRK: Yes.

COMMISSIONER BROWN: That is why I asked if you had any figures to show if this had helped or not.

DR. HOPPER: $2\frac{1}{2}$ per cent is a pretty small interest rate.

COMMISSIONER BROWN: But if it has had the effect, you can see that it helps build up your argument. If not, it means that farms are at a higher price ---

DR. HOPPER: It will be a very useful study to make to see to what extent productivity has increased as a result of that.

COMMISSIONER BROWN: Of course, you haven't any figures you can give us on that?

DR. HARPER: No.

MR. KIRK: I have asked our Quebec directors about their opinion of the question of the inflation of land values in Quebec as a result of this programme, and their answer was that they thought not, from their general knowledge of how it had gone in other parts of the country as well, and what had happened, that it had not had a particularly noticeable inflationary effect as compared to other land in other provinces. That was their answer, but that was just their opinion on the basis of observation, not on the basis of any developed study of the question.

COMMISSIONER HARROLD: These provincial schemes are fairly recent, are they not, advancing credit?

DR. HOPPER: Yes. I don't think they are as long-term as some of the others.

COMMISSIONER BROWN: Long-term loan?

DR. HOPPER: Yes.

THE CHAIRMAN: These are loans for the purpose of purchasing a farm, are they not?

DR. HOPPER: Yes.

THE CHAIRMAN: These Quebec loans are to purchase or improve on real estate?

COMMISSIONER BROWN: And then they have a third

one, a farm improvement loan, where it is 6 per cent, less provincial rebate of 3 per cent, so it is a net cost of only 3 per cent. There are three types there.

MR. KIRK: Yes.

THE CHAIRMAN: I was thinking of the purpose of purchase and/or improvement to real estate, consolidation of debts, et cetera. That is the first one. The second one is purchase of a paying farm, and the third one is for farm organization and improvement. Well, the larger ones are for the purpose of acquiring farms, and that would not increase the productivity.

COMMISSIONER BROWN: I think the first one, sir, has the purpose of purchase and/or improvements.

THE CHAIRMAN: The improvement part of it might have something to do with productivity, but the mere acquisition of a farm wouldn't affect the productivity, of course.

MR. KIRK: No, when a purchase is a transfer of existing capital it doesn't have any automatic implications for productivity.

THE CHAIRMAN: Well, unless a person can borrow or acquire some way some additional capital, then he hasn't very much to improve the productivity of his farm?

MR. KIRK: That is right.

THE CHAIRMAN: One leads to another.

MR. KIRK: That is right. I think we have referred to the question of the different development capital needs, and this is a thing that concerns us.

COMMISSIONER HARROLD: The Quebec Credit Summary shows a rise in 1961 and a revision in some of the other provincial acts or authorities. It doesn't indicate when it was started. Have you any information how long it has been in effect in Quebec?

MR. KIRK: I am sorry, I just don't know.

DR. HOPPER: I don't think we ever looked back into the origin of credit.

MR. KIRK: But it is still for ten years, I know that; my understanding is that it is for most of the post-war period, certainly.

THE CHAIRMAN: Then, we will proceed to certain specific recommendations and first of all at page 3 of the summary the first recommendation is for the granting of interest-free loans to farmers in cases of natural disaster. Now, what provision is there at the present time to deal with the sort of disasters that you contemplate by this recommendation? Is there anything at all?

MR. KIRK: No. Well, if there are disasters that are sufficiently widespread, then it becomes a national emergency and the provincial and federal authorities and the public, through a campaign of donations, swing into action.

It is like the floods of Winnipeg, and so on. Where the same thing happens on a more limited scale, then nothing happens and there is not, as far as I know, any particular provision for meeting the difficulties of this sort except in the case of hail. There is, of course, hail insurance which is a common thing in

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western Canada and that particular disaster is dealt with to a certain extent the way drought is dealt with.

THE CHAIRMAN: And wind insurance; I don't know whether many people have it, but there is such a thing.

MR. KIRK: Yes, there may be particular insurance that is available for wind.

THE CHAIRMAN: That would be with the insurance company?

MR. KIRK: Yes, through an insurance company if it exists.

THE CHAIRMAN: I was just wondering to what extent insurance is available through some agency, whether it is an insurance company or a public agency?

MR. KIRK: Well, I am not aware of any development of private insurance for crop insurance; I am aware of development of hail insurance, most of which is with private companies and co-operative companies; there is that area of insurance. Then, of course, there is the Prairie Farm Assistance Act, which is a form of partial insurance against drought, and there is the new Federal Crop Insurance Act that isn't very widely used yet but may become so, and that is designed to provide a form of crop insurance.

COMMISSIONER MACKINTOSH: Is your recommendation additional to that kind of assistance?

MR. KIRK: Yes sir, it is additional to that. We are talking about a particular disaster that not only affects the crop but affects the capital of the farmer and that are particularly severe and can put a

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very heavy load for capital replacement on the farmer and sometimes can severely reduce his income-earning possibilities for one or more years.

COMMISSIONER LEMAN: What sort of disasters are you now talking about that affect the capital of the farmer; fires or what?

MR. KIRK: Well, not so much fire of buildings, which, of course, is insurable; that is a regular form of insurance which we have had for many years. For example, if you have a very severe frost condition in orchards that damage the trees and perhaps kill them, this can be a very severe thing for the orchard man. It goes far beyond the loss of that one crop.

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If you have floods they can destroy not only one crop but can very severely damage the land, and works for the re-establishment and the reclamation of the firm are needed. A very disastrous outbreak of insect infestation in some areas may, under some conditions, be so severe as to be a very damaging thing. Floods and damage to orchards have been two of the things that have been principally mentioned in this connection by our people.

We would want such a plan set up with great care so that it could not be abused. It is not our intention under this programme to set up a system by which people can get capital interest free where there was not a real and evident need for it, and, of course, they should not get that capital interest free when there is not a real and evident need for it. However, disasters do occur that are large enough to provoke public action, but the same kinds of disasters happen to smaller groups of individuals and do not receive public recognition, and there is no way of dealing with them in the same way.

THE CHAIRMAN: Instead of having something that would be quite a complicated system such as this would it not be better for a farmer who has a loan for the purchase of his farm from a credit corporation to be relieved of the payments for a year or so? That would give him a chance of restoring his position. Of course, if the

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farm was debt free he should be able to raise the money without too much difficulty.

MR. KIRK: Yes, if the farm was debt free he would be in a much better position to manage through the regular loaning system, I agree.

THE CHAIRMAN: But there are a great many complications that arise in working out to what extent there was a disaster, because every year there is a disaster on farms of some magnitude or other, and farmers have to be pretty much on their toes to make the best of a bad situation. Appendix 3 describes in somewhat greater detail the emergency and disaster loans, and it can be seen that the whole matter is a very difficult one.

MR. KIRK: I agree. It is possible to imagine many potential difficulties, and also to imagine that if so and so did such and such he might manage to get these loans under wrong circumstances. There could be also unreasonable demands. But, our own opinion is, that in practice you find a lot of these fears are illusory.

I think such a thing could be operated responsibly, and it would be treated responsibly by the governmental organizations and the farmers concerned. If it was set up in the right way I do not see any reason why we cannot operate such a scheme responsibly in this country. I think it would be wrong to assume that human weakness and cupidity necessarily rule out the

operation of a plan such as this.

COMMISSIONER LEMAN: What puzzles me a little bit is why, if this kind of a scheme is commercially viable, it cannot be started through private initiative.

THE CHAIRMAN: You can hardly expect the loans to be interest free under those circumstances.

COMMISSIONER LEMAN: But do they have to be interest free. This could be a form of insurance, could it not? Some studies could be made as to the number of well defined disasters that happen per year, and a calculation could be made of what the premiums would be. Are you convinced that this is not commercially feasible?

MR. KIRK: Do you mean that the same thing might be done through insurance ----

COMMISSIONER LEMAN: Yes.

MR. KIRK: --- and perhaps done better? Of course, the disasters tend to be very occasionl -- at least, the kind we are talking about. There would be a very strong tendency on the part of the farmers not to insure for this. The area of insurance would have to be quite large, I would think, because these are disasters and they occur across the country. You would have to have fairly high participation right across the country in one scheme. Of course, I do not know but there may be a constitutional difficulty. That matter always comes up. But, apart altogether from that -- and I am not making a point of this -- I think

that to develop such a scheme and to get the participation that would be necessary to make it work, would be a pretty difficult thing and would involve an enormous collection of relatively small premiums over the entire country.

COMMISSIONER LEMAN: All insurance has that characteristic, that you collect a lot of little premiums and make big payments occasionally.

MR. KIRK: I quite agree. I do not know what the actuarial position would be, but I would not go so far as to say that it could not be done given the participation by the farmers. It is our opinion that the more regular form of insurance for crop risks needs to be developed and this is, as the United States has found, a very big job in itself. It is a very big job to develop a very good system of crop insurance. They have been working on it for many years, and they are just getting rolling now.

DR. HOPPER: They have such great areas.

MR. KIRK: My opinion is that it can be done much more satisfactorily and a lot more simply with the type of plan I suggest.

COMMISSIONER LEMAN: There might be a tendency to go to the government to do things that can be done otherwise. Of course, if these things cannot be done otherwise then resort to the government is necessary, or if they can be done better by the government then the government

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MR. HOPPER: They have spent years.

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COMMISSIONER LEMAN: There might be a tendency to go to the government to do things that can be done otherwise. Of course, if those things cannot be done otherwise then resort to the government is necessary, or if they can be done better by the government than the

should do them. We have to be sure of that.

MR. KIRK: We do not think the cost of this plan will be very large. We do not think that over-all it would be a costly programme. In short, we think it would be a very useful and socially desirable type of plan.

THE CHAIRMAN: Well, it is an area that has not been covered yet.

MR. KIRK: That is right.

THE CHAIRMAN: As you say, when the disaster is large enough great public interest is taken in it, and people will go out of their way to provide the money without raising a hair.

COMMISSIONER LEMAN: Yes, but there are partial disasters, too. That is where it becomes complicated. I have heard from the people who try to sell irrigation systems that they cannot satisfy the demand in a drought year, but if the next year is good they cannot sell a single system. In other words, people think of these things in terms of what is happening this year, and they do not think about next year, and that is not the best approach.

COMMISSIONER BROWN: What about this question of frost damage to orchards? Has there been any move to develop insurance for frost damage which takes into account future damage as well as current damage. For instance, if there is frost damage at blossom time the damage is difficult to assess, but there is the more factual

damage of frost damage to the actual tree. That is the disaster type of damage because it can wipe a man out until he can get new trees planted and get them to the fruit-producing age. Has there been any form of insurance to cover that?

MR. KIRK: Not to my knowledge.

COMMISSIONER BROWN: Has it been tried and has it failed because of not enough participation?

MR. KIRK: Again, I do not know that any attempt to insure against that kind of thing has been made.

THE CHAIRMAN: In Appendix D there is a description of the Farmers' Home Administration in the United States which, I understand, deals with many things. Emergency loans are made to farmers in national disasters such as drought, floods, storms, and other things, and the interest rate is 3 per cent. These loans may be made for the purchase of feed, seed, fertilizers, et cetera, and the replacement of farm buildings and equipment. For crop destruction it is expected the loans will be repaid within so long. It covers a multitude of items.

DR. HOPPER: Yes.

THE CHAIRMAN: That is the sort of thing ---

MR. KIRK: Yes, that is the sort of thing we are talking about.

THE CHAIRMAN: So there is some experience with this sort of thing?

DR. HOPPER: Yes, definitely.

THE CHAIRMAN: You do not know whether their conception of a national disaster would go so far as to include the sort of disaster you have in mind?

MR. KIRK: Do you know what their definition of a national disaster is?

DR. HOPPER: I do not know the details of it.

THE CHAIRMAN: At any rate, this proposal of yours is one for consideration. It is a gap that exists.

DR. HOPPER: It is a gap that exists.

THE CHAIRMAN: And you say it should be filled, and that it is of importance to the farmer.

MR. KIRK: I think that disasters must be more widespread in the United States than in Canada.

THE CHAIRMAN: The word "national" would imply that.

MR. KIRK: Yes, I think it must be declared to be a national disaster.

THE CHAIRMAN: Your second recommendation is:

"A special, flexible credit service, provided by the Farm Credit Corporation and operating to serve special needs of rural development programmes should be provided."

Would those rural development programmes serve the purposes that are covered, I think, by the United States system under the Farmers Home Administration which is described in Appendix D? Would you just itemize the sort of special needs you have in mind there that are not now covered by any scheme.

MR. KIRK: Well, one of the difficulties here is that under rural development programmes comes the programme of discovering what the economic opportunities in the area are. I think one example would be -- I am not exactly clear about the intent, but I think the Minister of Agriculture has indicated that he intends to bring in amendments to the Farm Credit Act, and he has referred particularly to beef production, has he not?

DR. HOPPER: Yes.

MR. KIRK: I think the thought here is for certain areas that are farm areas that are at economic disadvantage, and in such areas you might have a positive programme of rural development in which the encouragement of beef production would be one aspect. You might very well want to have a credit programme which would go beyond the type of thing that is looked after by the Farm Credit Corporation in which it is, first of all, the farmers' own initiative that is involved in approaching the Corporation on the whole, and, secondly, there are certain requirements for equity

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for the farmer having an individual plan.

Suppose that in an area the Federal and Provincial governments went in and surveyed the pattern of farming, the income position and the resources of that area, and they made up their minds that to improve that situation they must do some planning as to what kind of farm enterprises should be encouraged. Perhaps there should be the purchase by the government of land and then resales to other farmers so as to have a planned development of more economic farm units. Perhaps they might want to encourage co-operative development of community pastures in connection with beef enterprises. All these things might very well raise questions of individual or group financing needs, and the security and conditions that are available for these loans might not meet the regular requirements of the Farm Credit Act, and there might be a need for group arrangements for credit that are not embraced by the Farm Credit Act.

What we are asking is that there be a credit section where there is a wide discretion in connection with rural development programmes in areas where there is a federal-provincial agreement for the improvement of the economic conditions in a variety of ways in certain areas, and that this sort of thing not be held up because of a lack of credit that can be specially adapted or tailor-made with respect to interest rates,

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with respect to terms and conditions, or with respect to the form in which the money is loaned, whether it be to groups or to individuals. We ask that such a plan not be held up because of a lack of such credit, and that there be provisions whereby this kind of credit would not be used except in conjunction with some fairly formal, well developed plan. It would not another form of credit that is available to anybody who wanted it.

THE CHAIRMAN: There is a $50 million programme that has been adopted very recently. Would that cover the sort of thing you have in mind?

MR. KIRK: It is related to that programme. It is part of the programme.

THE CHAIRMAN: It is only part of the programme, is it?

MR. KIRK: That is right. We do not think in terms of necessarly getting all of the capital that is needed from the government as a grant from that sum of $50 million. There may be a very real need for capital that is repayable by the people in the community, but it may need to be repayable on special terms to meet the needs of these rural development plans.

COMMISSIONER BROWN: In at least one province there is provincial legislation that provides for the formation of improvement districts and drainage districts, and so forth, under which debentures can be issued and sold on the market,

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COMMISSIONER BROWN: In at least one province there is provincial legislation that provides for the formation of improvement districts drainage districts, and so forth, under which [illegible]

and the properties are the first charge against the loans. Is that not common in other provinces as well? I know this applies in British Columbia.

THE CHAIRMAN: It applies in Ontario.

COMMISSIONER MACKINTOSH: And, I think, in Quebec.

COMMISSIONER BROWN: Is this the sort of thing you are talking about?

THE CHAIRMAN: In Ontario we have conservation authorities which do certain planned development. I do not know whether they go as far as you have in mind.

MR. KIRK: The conservation authorities are part of this specific picture of resource development, and a very important part.

COMMISSIONER BROWN: Is it something further to this that you are talking about, or a further development of this sort of thing?

MR. KIRK: Well, here we are talking about needs that are not necessarily yet identified. That is the difficulty in the thing. It is the concept of rural development under the Agricultural Rehabilitation and Development Act. As you study the opportunities for improving the economic position of a district you discover what they are, and until they are discovered you do not know what they are.

All we are saying is that we can foresee new crop possibilities and, perhaps, new joint processing possibilities in a limited way, that

merge in these plans in these areas, and to get the thing underway it may be necessary to have available a discretionary credit plan by which the credit can be adopted to those needs.

Very frankly, we do not know what these needs will be. The kind of needs that we do know about, that have been raised in the past, are things like, as you say, community pastures. There might be drainage and joint land works for conservation control , water improvement and water works, and it might not be the appropriate thing in these cases to say, "Well, the government will pay for it."

THE CHAIRMAN: This is not so much credit to the individual farmer, but a local project among a number of farmers?

MR. KIRK: It might be a group project, but you might very well have drainage or water development works where you make an allocation of cost to the farmers; but there would not be a continuing group operation of this particular work. That is perfectly possible.

COMMISSIONER GIBSON: Are there many of these plans in the making now, under this legislation?

MR. KIRK: Not many and, in truth, we know very little about what is in the making. The position of this programme at the present time is, I think, that they are very close to signing master agreements with each province that broadly outline the range of possibilities.

COMMISSIONER GIBSON: There are relatively few specific plans yet developed?

MR. KIRK: Yes. Our understanding is

that in every province there is one, or more, pilot project as to the first things to do, but we have not been told what these things are. That is our problem at the present time.

THE CHAIRMAN: We will go on to No. 3:

"Policies to better provide for initial transfer capital for farmers entering farming."

In this you have a rather ingenius suggestion for the transfer of a farm from the father to the son -- particularly on page 25 of the brief. I also had some difficulty in figuring out just exactly what the method was, though I think I did get the general conception of what you are attempting to achieve. Perhaps you could elaborate on that a little?

MR. KIRK: I wish we had this idea more exhaustively worked out ourselves. We say it represents one idea about this. With all the legal and technical implications of this, I am afraid we are not confident that we fully understand them.

THE CHAIRMAN: Just to clarify what I understand about it at the moment, when the father wishes to retire the problem is what is he going to do with his farm.

MR. KIRK: Yes, that is right.

THE CHAIRMAN: Your suggestion, in very general terms, is this, that the son could then take over the farm and pay the father an annual

amount which would roughly equal, perhaps, the interest on the value of the farm. Would that be it?

MR. KIRK: No. Our thought was that there should be an agency which would do a special form of incorporation of that farm by the purchaser, the son, and he would purchase the farm from the father, and the purchaser would, in effect, sell securities on that farm to this agency, which would supply the money to pay the father. There would be no amortization year by year of the capital amount, so the interest charges only would be payable by the farmer to the agency.

THE CHAIRMAN: The same thing would happen when the farmer died, and it would go on indefinitely?

MR. KIRK: Yes. Our thought was that then you would be in the position where, if this man needed -- as he almost certainly will, with the constant change and improvement in technology -- development capital -- and, as you pointed out, this is just a cost of acquiring this asset -- if he needed development capital he could get it on a first mortgage on that farm. The agency would not hold the first mortgage on that farm. It would be investing on that land as a holding of a security of an incorporated business. This is possible.

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a good and convenient way of handling this problem, that of a man trying to pay off too much in too short a time of the capital value of his land and being strapped for development capital as a result. Our thought was that the agency would operate from an interest point of view on an unsubsidized basis. It might sell its securities in the money market to finance these farms. It might have an arrangement whereby regular payments to the farmer who sells the farm would come from the agency, if that farmer wanted to make an arrangement with the agency to leave his capital in there and take an annuity.

THE CHAIRMAN: The farmer would never really own the farm at all; it would be owned by the agency, would it?

MR. KIRK: Yes, that is right, but it would be a public agency.

THE CHAIRMAN: But, in effect, the farmer would simply be in this position, that he would be entitled to work that farm and live on it and do anything that he liked with it, till he wished to pass it on to somebody else; and all that he would have to pay would be the interest on the value?

DR. HARPER: Yes.

THE CHAIRMAN: And he would not have to pay for any part of the capital?

MR. KIRK: Yes. He would be able to sell the farm at any time.

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MR. KIRK: Yes.

THE CHAIRMAN: And he would not have to pay for any part of the capital?

MR. KIRK: Yes. He would be able to sell the farm at any time.

THE CHAIRMAN: He could turn it over to somebody else at any time, on the same terms?

MR. KIRK: Yes, or he could sell it, if his purchase price was adequate, to retire those securities.

THE CHAIRMAN: If he could sell it at an appropriate value, then he could acquire the farm?

MR. KIRK: Yes.

THE CHAIRMAN: And turn it over to someone else?

MR. KIRK: Yes.

COMMISSIONER BROWN: What I do not understand is what he has to sell. Say the time comes for him to retire, what has he got to sell?

MR. KIRK: He has the farm to sell.

COMMISSIONER BROWN: He has not paid for it; he has only been paying interest, and the agency owns the farm. Say, for the sake of argument, the agency bought the farm from the retiring father for $50,000 and the son pays the interest on that, and 15 years later he wants to retire. What has he to sell? The farm is still worth, let us say, $50,000, but he has not paid for it.

THE CHAIRMAN: He turns it over to somebody else who continues to pay the interest, and that can go on in perpetuity. You have to forget all these conceptions of capital and ownership in this plan. This is an entirely original plan.

I do not know why it might not be workable.

MR. KIRK: The agency would obviously have certain rights as the person who supplied the money. But our thought was that there would be an incorporation of this farm, and the securities would be in the interest on, perhaps, a preferred stock that was non-voting except in the event of the interest not being paid. The farmer would have control of that farm for its re-sale at any time, and his responsibility would be the repayment of the interest and the face value of those securities.

COMMISSIONER BROWN: Say that he sells them for $50,000, which is what he paid.

MR. KIRK: Yes.

COMMISSIONER BROWN: He has to pay the $50,000 to the agency, and he has not anything to retire on himself.

MR. KIRK: Yes, if there has been no accumulation of capital beyond the initial price of the farm, then obviously he would have no credit at the end.

COMMISSIONER BROWN: It is only to the extent that the value of the farm increases above the purchase price that he has an equity?

MR. KIRK: Yes, in the farm. If he does well he will have opportunities for other types of saving.

THE CHAIRMAN: If he sells the farm after his father dies, so there is no obligation

to pay the father the interest, then could not he get the interest and this go on indefinitely?

MR. KIRK: Do you mean, if he got the farm as a gift?

THE CHAIRMAN: No.

COMMISSIONER BROWN: The father has had the cash.

THE CHAIRMAN: The father has just the interest.

MR. KIRK: If the father subsequently died and willed his assets to the farmer, then he would have them.

THE CHAIRMAN: I thought the father was to be paid an annuity?

MR. KIRK: The annuity suggestion is not really central to the idea. The farmer who sold it would be paid for the farm.

THE CHAIRMAN: And the corporation would pay the farmer?

MR. KIRK: Yes. There might be a provision of this kind, as to supply of capital to the agency through these means, but that is not a central feature of the proposal.

COMMISSIONER MACKINTOSH: Essentially what you contemplate is a lease-back arrangement with rather peculiar features, that any increase in capital value goes to the lessee?

DR. HARPER: That is right.

COMMISSIONER MACKINTOSH: Rather than to the lessor, and there are certain rights which

the lessee has as to the perpetuation of the arrangement?

DR. HARPER: That is right.

MR. KIRK: Yes.

COMMISSIONER MACKINTOSH: However, having provided for the retirement of one farmer, aside from increase in capital value you have no way of providing for the retirement of a succeeding farmer, except in so far as, he not having been required to build up the equity in his land, he, in turn, may have bought a government annuity or an insurance annuity and provided for his retirement outside the farm?

DR. HARPER: That is right.

COMMISSIONER MACKINTOSH: But I think when you get to the point of allowing a lessee to mortgage the property you are going to throw the legal profession into great confusion.

THE CHAIRMAN: Perhaps that will not be an unusual situation.

COMMISSIONER BROWN: Obviously a lawyer has been involved in this.

MR. KIRK: It is an unusual suggestion, but it is the very central purpose of the plan to create an improved possibility for that farmer to acquire development capital so that he can keep up with improvements in technology and the need for hard cash for modern farming, as the years go by.

Our opinion has been that the farmer,

when he buys a farm, undertakes a first mortgage and an amortization on that, and is attempting to save through the form of acquiring an equity in his farm, and very often he does this and he is trying to save, in view of his income and needs for capital investment, and the result is that he hurts himself and the country in the process.

THE CHAIRMAN: The farmer would inherit an interest in the farm, depending on what the father decided to with it; but what is the virtue of making it easier for the son to get the farm? Very often if the son has an easier time, credit-wise, he is apt to let the farm go to seed more quickly than a man who has to keep on his toes to meet the payments. That has happened often.

MR. KIRK: I am not sure I grasped that point.

THE CHAIRMAN: If a person inherits something and does not have to pay for it, and has no interest to pay and no principal payments to meet, he can be comparatively lazy and still get by.

MR. KIRK: Yes.

THE CHAIRMAN: But if he has to build it up himself from the start and think about every dollar ---

MR. KIRK: He will have interest payments to pay.

THE CHAIRMAN: Why do you give some special deal to the inheritor?

MR. KIRK: He will have interest payments to make, first of all, and these interest payments might be larger than the Farm Credit Corporation interest rates. In this regard we are suggesting that the agency acquire funds and operate without loss.

THE CHAIRMAN: I think I have a general idea.

COMMISSIONER BROWN: Following up Dr. Mackintosh's question, I am still not clear. Where are you going to find people who will lend money on a mortgage to a farmer who is operating a farm which has this charged against it? The person advancing the money on the mortgage has to look at the possibility of having to enforce his mortgage. Now, what security has he got? He is really in the position of having a second mortgage, is he not?

MR. KIRK: Our thinking, first of all, was that the Farm Credit Corporation should be the agency. Secondly, obviously I think, if such a corporation is worth suggesting and were in effect, there would have to be special rules for the credit given to this farmer on a first mortgage by the Farm Credit Corporation. You could not just go ahead and give a loan to such a man just under Part I of the Farm Credit Corporation Act, to the full three-quarters of the equity. You could not do that; I think that is evident.

THE CHAIRMAN: You are putting it forward

not as a complete proposition, but with the details to be worked out. It has given us the purpose, something along this line might be done.

DR. HOPPER: There is quite a bit of study going on on this; and with the need for increasing capital in order to operate them efficiently and economically, you would not have to pay off a $50,000, $70,000 or $100,000 capital investment on the farm, but he could use that in the development of his business.

COMMISSIONER MACKINTOSH: I think that where perhaps you have made an error is here, if the father is going to retire on an income, and if farming is his sole business, the farm has to produce the resources for retirement, and there is no way of getting around it. However, your other proposition is that you take over, say, a $70,000 farm -- that the fund should take it over?

MR. KIRK: Yes.

COMMISSIONER MACKINTOSH: And to expect to own all the capital required at the end of his working life is too big a proposition, as farms become too big. You have said that, therefore, he should be relieved of all his capital. Your proposition might be satisfactory if you had a system by which he would be relieved only of part. That is to say, it may be quite reasonable that over his lifetime he should increase his equity

from nearly nothing to one half. You want a scheme of continuing financing so that you do not have to clean the whole thing up on transfer, but it can carry on. I think that could be reduced to much simpler terms. It should not be hard to arrange renewed mortgage credit on a farm which it has been demonstrated has reduced a previous mortgage credit by one-half, two-thirds, and has demonstrated productivity. I think if you drop the "either/or" and get into fractions that might be better.

THE CHAIRMAN: This is obviously a problem which could be solved more quickly by an economist than by a lawyer. We shall adjourn for 10 mintues.

--- Short recess.

THE CHAIRMAN: If there are no further questions on Recommendation 3, we will proceed to Recommendation 4.

COMMISSIONER MACKINTOSH: That is the one dealing with housing loans?

DR. HARPER: Yes.

COMMISSIONER MACKINTOSH: I take it from this that the nub of this recommendation is that the security for a house loan should not extend to the farm land?

MR. KIRK: That is right; that is the nub.

COMMISSIONER MACKINTOSH: I do not know how far you measure that from the house. The reason for that is easily seen, that it takes up the security which might be used for productive loans. However, that does not really leave much security behind the house.

MR. KIRK: The security of the house is essentially the fact that, to utilize that land, labour will be employed and it will be income-earning labour and therefore they will need housing in that location over the long period of time. I think we made the point that in granting such loans the lending agency from Central Mortgage and Housing, if that is it, should attempt to reasonably assure that for the present and the reasonable future this is an economic unit needing a labour force in that location in order to utilize the land.

In the case of housing for the hired help you have the situation where you are paying the hired

help, and again even more serious is the problem of using the security of your land for buying housing for someone whose housing should be carried by the income of the employee.

COMMISSIONER MACKINTOSH: Of course, you have already to some degree frightened your potential mortgagee by telling him that the trend of productivity is up and that the requirement for housing on farms will be down over the long run. Therefore, left to himself/he is going to want to share in this more productive but less densely-housed farm that you project for the future, a farm with less labour per acre.

MR. KIRK: That is true but the extension of farm size does not take place in uniform, small increments over all the farms. For instance, you would not give loans for housing to a farmer and his hired man on a farm which pretty obviously is not going to be a viable unit in the foreseeable future. I would say, for example, that unless it was intensified, specialized crop land you would not give such a loan for two houses on a 100-acre dairy farm in eastern Ontario. I do not think you would do that.

COMMISSIONER MACKINTOSH: Are these loans presently given by the Central Mortgage and Housing Corporation?

DR. HOPPER: They are made by the Farm Improvement Loans Division of the Department of Finance, and the maximum loan is $7,500.

COMMISSIONER MACKINTOSH: What security will they take?

MR. KIRK: The Farm Improvement Loans Division takes the security of the asset that is built with the loan.

DR. HOPPER: Yes.

COMMISSIONER MACKINTOSH: So you have no problem there. The only trouble there is that the $7,500 is a little small.

DR. HOPPER: If you take the full amount, then you cannot draw on the Farm Improvement Loan for anything else. You have taken your limit.

COMMISSIONER MACKINTOSH: Are C.M.H.C. loans made on farm dwellings?

MR. KIRK: Yes, on a first mortgage.

COMMISSIONER MACKINTOSH: A first mortgage on the land?

MR. KIRK: Yes. The result is that in fact no such loans are made.

COMMISSIONER MACKINTOSH: Could you not persuade the Central Mortgage and Housing Corporation to learn fractions?

MR. KIRK: We have discussed this with Central Mortgage and Housing, the need for something there.

COMMISSIONER MACKINTOSH: This might be a case again where instead of dealing with all or nothing you might deal with part.

DR. HOPPER: A fraction.

MR. KIRK: Yes, it might very well be, for the farm house depends of course on the farm. Some farm houses are part of the productive capital too.

Parts of them are utilized that way.

COMMISSIONER MACKINTOSH: Do any of the others wish to ask questions on this point?

THE CHAIRMAN: How big a problem is this? Most of the farms have houses built on them. Some were built many years ago and being constructed of brick and stone are fundamentally in a sound condition. Where is the great demand for new houses on farms? Most of the arable land was taken up many years ago.

MR. KIRK: The great demand is in livestock production, particularly in dairying, and the experience has been that unless you have adequate housing for your employed help you cannot get satisfactory employed help.

THE CHAIRMAN: They have in the past. They have built up these dairy farms. Are they expanding the dairy industry?

MR. KIRK: In the past there was a pretty extensive use of the hired man who lived on the farm, but the labour you get from hired help nowadays tends not to be very satisfactory.

COMMISSIONER MACKINTOSH: They will not sleep in the hay stack any more.

MR. KIRK: That is right. Another thing is that it is desirable that more farmers move towards applying their farm operations in such a way they employ a man the year round, and to the extent that the problem of seasonality and labour utilization in Canada can be helped by this, it would be a good thing. The Department of Labour has emphasized most strongly -- as has been reflected in their publications -- the need

for farmers today to have good, reasonable living accommodation on their farms.

THE CHAIRMAN: I was just wondering to what extent there was a real gap there, because with farms increasing in size from, say, 100 acres to 200 acres a farmer may find himself in possession of two houses.

MR. KIRK: That is right, but if this is the clear outlook for that farm you should not give the loan in that case.

THE CHAIRMAN: No, but I was wondering what was the extent of the problem. I can understand there might be some need there.

DR. HOPPER: In the survey we made prior to the preparation of our brief for presentation to the Senate Special Committee on Manpower and Employment, we had many answers as to why there is difficulty in obtaining hired help. A great many of them said, "If we could provide a home we would not have to hire men who live in a near-by village and have to leave their families and come out and work for us, or we would not have to take unmarried people. We could take married men." They said that there are quite a large number available if they had the housing for them.

COMMISSIONER BROWN: I have had difficulty in following this through in the sense that I understood you to say that the only places where you would be able to get such a mortgage is where you could show in fact a house was going to be necessary for the rest of the farm to be a viable unit, but you did not want to

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COMMISSIONER BROWN: I have had difficulty in following this through in the sense that I understood you to say that the only places where you would be able to get such a mortgage is where you could show in fact a house was going to be necessary for the rest of the farm to be a viable unit, but you did not want to

tie up the rest of the farm.

DR. HOPPER: Yes.

COMMISSIONER BROWN: But it seems you are on the other horn of the dilemma as to why you want to borrow money on the farm. You have to persuade the man who would be loaning money on the farm that it is a viable unit even without the house. So you have to contradict yourself if you want them separately pledged. On the one hand you have to persuade the lender that the farm can be operated without this housing, and on the other hand you have to persuade him it cannot be operated without the housing. How do you reconcile these two selling points?

MR. KIRK: I am sorry, but I am not too sure that I get the point.

COMMISSIONER BROWN: You said that the only place where such a house might be constructed would be where you could show the lender that this house was really going to be necessary, because it was going to be necessary to house people working on the adjoining farm land.

DR. HOPPER: Yes.

COMMISSIONER BROWN: But at the same time you did not want to tie up the farm land because you wanted to be able to pledge it against another loan. You do that, but then you go to the person from whom you propose to borrow money against the security of the acreage and at the same time you have to persuade him that this is good security because the houses are not necessary.

MR. KIRK: The houses are not necessary?

COMMISSIONER BROWN: Yes, because he has to have some sort of security and what security has he got if the acreage is no good without the houses?

MR. KIRK: But the house would be there.

COMMISSIONER BROWN: Yes, but the house is pledged on another mortgage to somebody else, is it not?

MR.KIRK: That is right.

COMMISSIONER MACKINTOSH: If you were dealing with the Farm Credit Corporation entirely you need an authorized debt limit of so many thousand dollars, of which you would use a smaller amount for a house and you could go back for the remainder when you wanted to do something for the farm.

COMMISSIONER LEMAN: On the same mortgage.

COMMISSIONER MACKINTOSH: It is one security, the house and farm as an operating unit.

MR. KIRK: That is right. Anyone wanting to purchase that farm would have to acquire the obligations involved in that house.

COMMISSIONER LEMAN: Yes.

MR. KIRK: With Central Mortgage and Housing Corporation, if that is where the loan was made.

COMMISSIONER BROWN: It seems to me that you still have to have them tied together, that what you want is a higher ceiling of some kind rather than the ability to separate the securities.

THE CHAIRMAN: You want more money on the property, including the house.

MR. KIRK: The houses are not necessary?

COMMISSIONER BROWN: Yes, because he has to have some sort of security and what security has he got if the acreage is no good without the houses?

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THE CHAIRMAN: You want more money on the property, including the house.

MR. KIRK: That is right.

THE CHAIRMAN: A larger total loan on that piece of land which includes the house?

MR. KIRK: That is right.

COMMISSIONER BROWN: That is what you really want rather than separate securities, for you cannot tell one person that it is not a real separation and then tell the other fellow it is a real separation, unless you have the husband doing the selling on one side and the wife doing the selling on the other side, or something like that.

MR.KIRK: Yes; that is true.

COMMISSIONER MACKINTOSH: You propose in your Recommendatinn number 5 that an intensive and continuing study of farm credit needs and their implications for the long-term development of the farm economy should be undertaken and that the Farm Credit Corporation should have a competent and active research division. I take it that this recommendation fits in to some extent with your second recommendation for flexible credit services, the working out of plans, and so on?

MR. KIRK: Yes.

COMMISSIONER MACKINTOSH: Has the Farm Credit Corporation at the present time a research staff at all of this type?

MR. KIRK: My understanding of the present position is that it does not have such a research staff. I do not know how much work is being done, but whatever is being done in so far as research is concerned is

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MR. KIRK: Yes.

COMMISSIONER [illegible]: Has the Farm Credit Corporation at the present time a research staff at all of this type?

MR. KIRK: My understanding of the present position is that it does not have such a research staff. I do not know how much work is being done, but whatever is being done in so far as research is concerned is

being carried out by arrangement with the Economic Division of the Department of Agriculture. I would not say we would have any particular objection to this institutional arrangement, but our thought was that it is of extreme importance, and I do not suppose there is any institution which has a more detailed day-to-day insight into and information on the conditions of farm people and their credit needs, not only of the loans they get, but of the loans they do not get and why they do not get them. There is an enormous body of useful information in the --

COMMISSIONER MACKINTOSH: The Farm Credit Corporation?

MR. KIRK: Yes, and its staff. We are very anxious that this be utilized.

THE CHAIRMAN: There is much to be said for the consolidation of all these credit arrangements under the Farm Credit Corporation.

MR. KIRK: Yes.

DR. HOPPER: Very definitely.

THE CHAIRMAN: If it was all under the one organization then they could look at the individual cases in the light of the overall situation.

MR. KIRK: That is true.

THE CHAIRMAN: Otherwise you might have conflict and possibly some friction.

MR. KIRK: That is true.

COMMISSIONER MACKINTOSH: I might say there is no danger of this Commission standing in the way of the Department of Agriculture getting a more realistic

view of agricultural operations.

MR. KIRK: Nor ourselves.

COMMISSIONER MACKINTOSH: According to your Recommendation number 6 you do not want the interest rates on Farm Credit Corporation loans and on Farm Improvement loans to be raised. These are both at 5 per cent, are they?

MR.KIRK: That is right.

COMMISSIONER MACKINTOSH: Is there any sign that credit from farm machinery companies is beginning to re-appear? My understanding was that the Farm Improvement Loans legislation largely wiped out the old machine bill collector who used to be seen around the farms, that this has now been transferred to the banks. Is there any sign, with the greater cost of machinery, of this sort of thing re-appearing?

MR. KIRK: I have not received much indication that this is so. However, when the loans do not meet the amount of capital needed by the farmers, you will find them going to other credit sources. However, I am not aware of any such trend. At any rate, no such trend has been brought to our attention.

COMMISSIONER MACKINTOSH: Do you anywhere consider the desirable upper limit of loans to individual enterprises from the Farm Credit Corporation or under the Farm Improvements Loan Act?

MR. KIRK: No, we haven't a position on what that upper limit should be. I think it is implicit in what we say that these limits must be raised as we go along.

COMMISSIONER MACKINTOSH: We have, I think, had some recommendations that the Farm Improvement Loan limit of $7,500 should be increased and there may have been something on the $27,500 on the farm credit.

DR. HOPPER: Yes.

COMMISSIONER MACKINTOSH: I suppose there is not much more to say on these recommendations except that you think 5 per cent is enough.

DR. HOPPER: Yes, certainly.

COMMISSIONER MACKINTOSH: You say that even though I think I saw in the paper that the federal government has issued 20-year bonds at $5\frac{1}{2}$ or 5.74; this is quite a margin.

MR. KIRK: As we say later on in our submission, sir, we don't pretend, in appearing before you, to be specialists in this field of bank and interest rate levels in monetary policy, but what we point out is that apart from not wanting the interest rate raised on farm loans, and feeling that a higher interest rate would be detrimental to the improvement and adjustment of farm productivity, it is also true, I think, that in

a general way our people are inclined to view high interest rates generally with displeasure. They feel that they don't as a group think much of high interest rates.

THE CHAIRMAN: In other words, they don't like them?

MR. KIRK: Yes, they don't like them.

COMMISSIONER MACKINTOSH: In other words, they are mostly borrowers?

MR. KIRK: That is right, they are mostly borrowers.

COMMISSIONER MACKINTOSH: I suggest that you make a survey of the rates on mortgages held by retired farmers. I think that would not all be applied.

THE CHAIRMAN: I don't know that that is so. Farmers get in the habit of thinking of 5 per cent, and sometimes I have found that they will take 5 per cent when they are on the other end. I don't know.

COMMISSIONER MACKINTOSH: I wouldn't know either. I also gather that on the whole -- aside from some details -- your constituency has found the Farm Credit Corporation in its recent operations and the farm improvement loan a pretty desirable and satisfactory thing?

MR. KIRK: Very much so.

COMMISSIONER MACKINTOSH: Well, I take it it is for substantially similar reasons that you think a maximum interest rate limitation on banks should be retained. Have you given consideration to periods

at which farmers may not be able to get loans at all at the bank, but might if it was possible to charge 6½ or 7 per cent? Do you think it is desirable that they should be intermitently squeezed out of the borrowing business?

MR. KIRK: No, we don't think so, and when we say that we think this maximum interest rate limitation should be retained, we mean that we think -- and that it very frankly is somewhat of a bias today rather than a fully developed theory of what the interest rate should be to monetary management in a nation -- and we very frankly think that an economy with a maximum interest rate of 6 per cent should be workable in relation to the total structure of interest rates that show the result of economic policy in this country.

COMMISSIONER MACKINTOSH: If the money managers are as good as you hope the farm managers will become, is that really the substance of it?

MR. KIRK: Yes.

COMMISSIONER MACKINTOSH: Your opinion is clear that you think 6 per cent is high enough on bank loans for your business?

MR. KIRK: Yes.

COMMISSIONER MACKINTOSH: Have you any views on the rigidity of a ceiling, whether it were 6 or 5½, and as it used to be 7?

MR. KIRK: No.

COMMISSIONER MACKINTOSH: I am not asking you to express views if you haven't got them.

MR. KIRK: No, I think that we haven't.

COMMISSIONER MACKINTOSH: Now, you had another recommendation that I didn't quite understand, that the Industrial Development Bank get out of the poultry and egg enterprises. Is this just a natural sense of tidiness or have you some objections to the operations of the Industrial Development Bank?

MR. KIRK: Well no. The Industrial Development Bank is making loans for these kind of enterprises and some of them in quite large amounts; we have heard of applications for loans at least up to a quarter of a million dollars.

Now, this raises questions of public policy. These loans are given where, as I understand it, the general criteria of the Industrial Development Bank is that theyonly loan where the credit is not normally available from other sources, not regularly available. We feel it is a real question of public policy whether there should be loans of this size and extent to farm enterprises from the point of view of the encouragement of very large units of production, and I think that first of all we would like these loans, if they are given, and we have recommended to the Farm Credit Corporation -- the Farm Credit Corporation's policy now is that they don't make loans of this type; they make loans essentially on the security of the productivity capacity of the land. Now, the egg enterprises can be on the security of the productivity capacity of land -- not of the farmer's land or the egg producer's land -- but of the land some place else. Western Grain is an example of this.

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THE CHAIRMAN: That is not a farm operation at all.

MR. KIRK: It is an agricultural operation. It is not a farm operation as it is sometimes conceived. This is a problem of definition, but we definitely consider as an organization that the production of eggs and hogs and poultry comes under our field of interest.

COMMISSIONER LEMAN: Could I ask you this question; are poultry and egg specialists members of your federation?

MR. KIRK: Yes.

COMMISSIONER LEMAN: They are?

MR. KIRK: Yes.

COMMISSIONER LEMAN: And this is a recommendation that they support, that the Industrial Development Bank be discouraged from loaning to them?

MR. KIRK: Yes, we think it should be done through the Farm Credit Corporation with limits on the loans and on the lending policy. That is determined as a farm policy decision.

Now, the Industrial Development Bank in its decisions on these kind of loans have nothing to do with decisions on the desirable structure of the farming industry or the size of the enterprise that should be encouraged; they are in the straight business of lending money to industrial enterprises.

COMMISSIONER MACKINTOSH: It would be best, however, we must assume, on projected profitability of the enterprise, though it would seem to me if you put

THE CHAIRMAN: That is not a farm concern [illegible] at all.

MR. KIRK: It is an agricultural [illegible]. It is not a farm operation [illegible]. This is a problem of definition, but we definitely consider as an organization that the [illegible] of eggs and hogs and poultry comes under our field of interest.

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COMMISSIONER MCKINNON: It would be best, however, we must assume, on projected profitability of the enterprise, though [illegible]

in a quarter of a million on a poultry project you must be going in for automation, but you are now making a recommendation that consideration be given to not making loans of a size which go beyond what would be considered farm enterprise?

MR. KIRK: That is right; I think that is implicit in what we are saying, yes.

COMMISSIONER MACKINTOSH: Well, I doubt if I could usefully ask any questions on the Agricultural Rehabilition and Development Act, but I think we should note that you are in favour of it. This is a nation-wide development of some of the things that were in the old Prairie Farm Rehabilitation, as I recall it?

MR. KIRK: Yes, that is right, on an expanded concept.

COMMISSIONER MACKINTOSH: Yes.

MR. KIRK: The reason we mention it is because it has real implications for the planning of investment and the use of social capital.

COMMISSIONER MACKINTOSH: Is it pretty active?

MR. KIRK: It is barely starting, sir; it is not at all active.

THE CHAIRMAN: The Act was passed in 1961.

MR. KIRK: Yes, the Act was passed in 1961, that is right.

DR. HOPPER: The interesting thing is that in almost all developed countries under the common market they are trying to improve the structure of agriculture and they are providing for additional help to the farmers in all of these six countries.

In the United States there is what they call the Rural Area Development Act, and in 48 states of the 50 they now have projects to assist in re-vitalizing and improving the rural areas of those states. They have gone longer -- of course, they have been at it for six or seven years -- but it seems to be that governments generally now are recognizing that they must improve the economy and social status of the rural people, and we agree with that.

COMMISSIONER LEMAN: But I think one should admit that there are problems of agriculture in the United States that are a worry to that government today.

DR. HOPPER: Oh definitely, and they are different from ours.

COMMISSIONER MACKINTOSH: I think that is all on that section, Mr. Chairman.

COMMISSIONER LEMAN: I would like to ask a few brief questions about recommendation number 10. First of all, if you look at your Recommendation number 10, which has sub-paragraphs (a), (b) and (c), I think we could eliminate the third one right at the start, which is, "Provision for more independent research and economic policy, including agricultural policy." And yet earlier in Recommendation 5 you have recommended that the Farm Credit Corporation should have a competent and active research division, so that is a little bit redundant there, isn't it? If you get satisfaction under 5, 10 (c) would become quite likely

redundant, wouldn't it?

MR. KIRK: No, I think not. We think that there is a place for research that draws conclusions and that deals with sensitive policy fields. We are inclined to think that you are not likely to get a lot of such research done and published directly by government, and we are now getting on a very limited scale a research institution financed partly by governments, federal and provincial, and partly by agricultural organizations and businesses associated with the furthering of utilization of agricultural credits, the structure of which is designed to give this, to provide this independence we hope for.

The basic structure is this, that the agencies and interests financing the agencies are representative, by nomination, of those interests in a council; this council appoints the research directorate and apart from the appointment of the research directorate, which is made up of professional people, apart from its appointment and its approval on very broad lines of its budgetary arrangements, the council would have the right of giving this information to the research directorate and the directorate is completely independent with respect to the carrying on of the research and its publication, and it is part of a concept that when research is arranged for it will, in fact, be published. We hope it will not be a discretionary function on the part of even the research directorate that as far as work goes, once it is done it is published.

COMMISSIONER LEMAN: Well, in this (a) and

(b) you mention two bodies that you would like to see; one is a national economic planning body attached to the Cabinet, and then we have another body which you suggest, a National Economic Advisory Planning Council with responsibilities for informing the public. Now, in your mind these two bodies would form independent opinions about economic policy, independent from each other?

MR. KIRK: (a) and (b)?

COMMISSIONER LEMAN: Yes.

MR. KIRK: Well, our thought is that (a) is simply a direct function of government, that it is part of the whole functioning of government; it is simply a recommendation that the structure of the government and its civil service be such that there is an identifiable economic planning arrangement and function.

COMMISSIONER LEMAN: Putting these two together?

MR. KIRK: Then, the second one is an advisory group representative of interests in the country and it is our concept, I agree, that to a very considerable extent with this consolidation, with adequate study by the people of this advisory planning council, that to a very considerable extent the country will in fact develop a concensus about the direction in which it is going and make decisions as to the country's policy.

COMMISSIONER LEMAN: Mr. Kirk, get two groups of economists and separate them and they will come up with different recommendations every time!

MR. KIRK: I don't know. I perhaps should defer to the Commission on this, but I strongly suspect there is a lot less truth in that statement -- which, of course, is very often made -- than we sometimes think. I think that the area of disagreement here would be and should be -- in terms of the economic assessment of what the factors are and what the situation is -- relatively marginal, and I think it is very important that we develop as great a concensus as possible so that our controversy and decision-making can be on the issues on which it should be without getting it mixed up in things on which it shouldn't be.

COMMISSIONER LEMAN: That is highly controversial. Of course, all I want to point out to you is that the government is unlikely to have two paid bodies; one advising the Cabinet on what the economic policies are and another one forming a completely different opinion and telling the public what it is like. I don't think you are likely to see that or get from that very practical results.

MR. KIRK: Well, I disagree. I think that the planning council, well informed and with good access to information, that they would find that through it you could, in fact, say many very useful and valuable things about the state of the economy and its functioning and what alternatives and possibilites face the country and get agreement on that, and it is precisely to do this to the greatest extent possible that you need the Economic Advisory Planning Council.

COMMISSIONER LEMAN: May I turn now to Recommendation No. 11. You seem to feel there is now a great difficulty in trying to separate how much money the government spends in the capital sector and how much in the current sector. I believe there is more ease in separating those two than you imply in your brief, but, in any event, what is the gist of your feeling that this is important? Is it because you feel the government may have been a little timid about running deficits, or what is your feeling?

MR. KIRK: No, it is not a question of whether there should be greater deficits or smaller deficits. There are areas on investment in the expenditures by the government that are directly productive in the sense of return. In others the return is not direct. A bridge without a toll is an example of that, but it can have very economical uses.

This is really just one aspect of the whole concept of good planning and direction of our economic affairs. Our thought is simply that all that is required for doing this is a set of national accounts that set up current accounts and various capital accounts on the basis of their economic function, and that relate them to the programme of the government with respect, in part, to the level of investment for purposes of keeping the economy going. In part they would relate them to over-all concepts of the lack of capital or

COMMISSIONER LEMAN: May I turn [illegible]

[illegible]

[illegible]

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of the excess of capital in particular areas of government investment. This is not a major recommendation, in a sense, but it is something that we think should be adopted if only for the purpose of having a useful analysis of what we are doing.

COMMISSIONER MACKINTOSH: Is the background of that recommendation a thought on your part that considerable agricultural expenditures are taken into the current account where they might reasonably be put into the investment accounts? I take it you are talking about the public accounts of the Government of Canada?

MR. KIRK: Yes, that is right.

COMMISSIONER MACKINTOSH: You are talking of the national income account?

MR. KIRK: No. We do not relate this particularly to agricultural expenditures, although the agricultural expenditures would come into it. It should be very clear in the accounts -- in those with respect to agriculture as well as the others -- as to just where it is a straight outright assistance programme and where it is a programme of putting money into productive projects of various kinds.

COMMISSIONER MACKINTOSH: You think this would be a better and more informative accounting practice?

MR. KIRK: Yes.

COMMISSIONER LEMAN: I do not know whether

you are saying that the government now classifies things wrongly, or whether it just does not give enough information about them. Are you saying that it does not classify things correctly as between what is a capital expenditure and what is a current expenditure, or are you saying they do not provide enough information?

MR. KIRK: I am not aware of any place in the public accounts where they say: "Now, what the Federal Government is planning for productive investment is such and such", so that it can be taken as part of the total investment picture of new investment of capital in the economy, and that can be related to the national accounts in some reasonable degree.

COMMISSIONER MACKINTOSH: What I call the national income accounts do, I think, make that separation in respect of all the government.

COMMISSIONER LEMAN: Well, it is not a very important point. With respect to Recommendation No. 12 I have one very simple question to ask you. You use the words "freer trade". You say:

> "The fundamental direction of our trade policy should be toward freer trade."

And yet the balance of the Recommendation talks about agreements on prices, markets and surplus products.

MR. KIRK: That is right.

COMMISSIONER LEMAN: In what sense do

you use the words "freer trade"? Do you use that expression in the sense of a collection of agreements on quotas and prices, et cetera, and do you think that that falls into the general category we call free trade? Do you use "free trade" in the sense of more trade, or really free trade where prices and quotas are left to the market to iron out?

MR. KIRK: First of all, the reason we say "freer" instead of "free" is because our position is not a dogmatic free trade position. We do not say that tomorrow all tariffs should be abolished and all quantitative restrictions should be abolished. That is not our position. Our position is that the direction of our policy should towards a gradual progressive freeing and lowering of trade barriers.

The agricultural situation is, in our opinion and to put it bluntly, that agriculture will need to be dealt with in a different way from trade policy with respect to industrial products. This has been the almost uanimous experience of every country in dealing with economic policy. It has been the conclusion of the Common Market that it must be the case. We simply think that in agriculture it will be necessary to reach international agreements, or else the pressures on agriculture and the difficulties that beset it will result in really more restrictive trade practices than there should be in the absence of international

words "freer trade"? Do you use that expression in the sense of a collection of agreements on quotas and prices, etc., and do you think that that falls into the general category of self-protection? Or do you use "freer trade" in the sense of [illegible], or [illegible] where prices and quotas are left to the market to [illegible] out?

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agreements.

COMMISSIONER LEMAN: Those are all the questions I have, Mr. Chairman.

THE CHAIRMAN: Are there any further questions from the Commission?

COMMISSIONER GIBSON: I have a couple of questions. In talking about monetary objectives you say that you want growth and stable prices, but you suggest they may be in conflict, and that if you have to make a choice you would rather see prices rise to some extent. Would you care to elaborate on why you think there is necessarily a conflict between these objectives?

MR. KIRK: I do not know if there is a conflict. I think all this was brought out before the Senate Committee on Manpower and Employment. As I recollect the discussion this question arose, and it was questioned whether, in fact, a thoroughly stable price level combined with a satisfactory and continuous rate of employment was a possible objective. I do not know. All we are saying is that the objective of policy should be full employment and stable price levels, but we are saying that the greatest waste that can occur is in the non-use of resources in the form of unemployment and that this takes priority over the objective of stable prices, if priorities have to be given. If it can be avoided, well, that is fine.

COMMISSIONER GIBSON: In talking

about growth you are talking about attaining a higher level of employment rather than talking in terms of a certain average annual rate of expansion in the country's output?

MR. KIRK: Not exclusively. Unemployment is one of the most obvious forms of economic waste. There are other forms, of course, such as a lack of adequate savings, the rate of investment, and so on. I would not include those in the same form of argument by any means.

COMMISSIONER GIBSON: Would you care to say anything about your views on how monetary policy affects the farming community; on the impact of changing credit conditions on the farming community?

MR. KIRK: Do you mean directly in the form of monetary policy?

COMMISSIONER GIBSON: When there are changes in credit conditions are there effects on the farming community? We have had two periods of tight money in recent times, and certain periods of easy money. Do these changes have much impact on the farming community?

MR. KIRK: Yes, there was a difficulty to some degree in getting a farm improvement loan at one period. We had difficulty in determining how widespread this situation was. We had complaints from farm people that they could not get the farm improvement loans they wanted.

On the other hand, in that period the

about growth, you are talking about attaining a higher level of employment rather than talking in terms of a certain average annual rate of expansion in the country's output?

MR. KIRK: Not exclusively. Unemployment is one of the most obvious forms of economic waste. There are other forms, of course, such as a lack of adequate savings, the rate of investment, and so on. I would not include those in the same form of argument by any means.

COMMISSIONER GIBSON: Would you care to say anything about your views on how monetary policy affects the farming community; on the impact of changing credit conditions on the farming community?

MR. KIRK: Do you mean directly in the form of monetary policy?

COMMISSIONER GIBSON: When there are changes in credit conditions are there effects on the farming community? We have had two periods of tight money in recent times, and certain periods of easy money. Do these changes have much impact on the farming community?

MR. KIRK: Yes, there was a difficulty to some degree in getting a farm improvement loan at one period. We had difficulty in determining how widespread this situation was. We had complaints from farm people that they could not get the farm improvement loans they wanted.

On the other hand, in that period the

actual volume of farm improvement loans did not drop. As I recall it, it went up a little. It was a question of how much more, I suppose, it might have gone up.

The position taken publicly by the Minister of Finance at that time in connection with farm improvement loans, as I recollect it, was that this was a public policy, and he made statements to the effect that he expected the banking system to supply these loans. As far as I know there is no mechanism of authority by the government over the volume of farm improvement loans loaned by the banks.

In the net result, at no period would I say has there been a drastic contraction of funds through the farm improvement loans that was very serious.

COMMISSIONER GIBSON: Do you find that changes in credit conditions affect the farmers in other ways, such as in the credit they get from suppliers, and in the supply of long-term capital, and that sort of thing?

MR. KIRK: I would say in the general context of the sources of credit that we have, and the place of government policy in it, that there have not been very noticeable impacts of changing monetary conditions on the farm picture from a credit point of view.

COMMISSIONER GIBSON: There is one other question that I have in mind, Mr. Chairman. You

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COMMISSIONER GIBSON: Do you find that changes in credit conditions affect the farmer in other ways, such as in the credit they get from suppliers, and in the supply of long-term capital, and that sort of thing?

MR. KIRK: I would say in the general context of the sources of credit that we have, and the place of government policy in it, that there have not been very noticeable impacts of changing monetary conditions on the farm picture from a credit point of view.

suggest in talking about contract farming that you are not very happy about this development. I wonder if you would care to say a little more about that. In one place you suggest that this development leads to an over-expansion of credit. You make it pretty evident that this is a tendency you are not happy about. Would you say something more about?

MR. KIRK: Yes. First of all, we recognize, especially for some products -- of course, the traditional and classic example is broilers -- that there are very real reasons for marketing contracts between the processors and the food plants and the farmer, and with respect to the farmer the integration of these arrangements is an economic proposition. Our position is not one of flat opposition to contractual arrangements for integration of production and marketing.

We are, however, very concerned, first of all, about the position of the farmer who enters into forms of contracts that perhaps he would not have entered into were it not for the fact that he was under great pressure to obtain credit. The farmer can be put in a position where his ability to produce next year and the year after, and also to get a contract, is very much at the mercy of a private firm whose interests do not at all lie in the farmer's particular welfare.

COMMISSIONER GIBSON: That is what you mean by over-expansion of credit? You say sometimes

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COMMISSIONER GIBSON: What do you mean by over-expansion of credit? You say sometimes

contract farming leads to an over-expansion of credit.

MR. KIRK: Yes, it can do that. There can be over-production of a product in contract farming. There is the example of broilers. The history of the broiler industry has been a very drastic reduction in the number of actual producers.

We think it would be better, first of all, if the farmer were well informed and assisted to get the right kind of contract, and persuaded not to sign contracts which are undesirable from his point of view.

Secondly, it is better that there be a strong bias in favour of the farmer's doing this job, where it must be done, through his own institutions. If he can carry on his operations and get his credit in a way that does not tie it up with his whole ability to produce then we think to the extent that this can be done it should be done. We think it is better to have a farm contract in which the credit and the contract arrangements are separated.

There are many products that are produced under contract, and they do not have too much to do with the credit. As a matter of fact, the people contracting sometimes contract as a group, and in this way they do themselves much more good than just getting sewed up with the processors or whoever it is giving the credit, and thus

becoming indebted to them and not being able to separate out what the costs of credit are and even not knowing what they are; not being able to shop around for supplies because they are tied to a particular supplier through indebtedness. This all reduces the farmer's own management.

COMMISSIONER GIBSON: This is partly a social view?

MR. KIRK: Yes, that is right, sir, it is.

DR. HOPPER: I know that in the United States there is a number of corporations that are going into this integrated type of farming. They went into it reluctantly, but they are into it now.

COMMISSIONER BROWN: Are they more successful in operating it themselves than they were under this contract farming type of operation?

DR. HOPPER: I would say they have been, but some of them have had substantial losses.

COMMISSIONER BROWN: Have these broiler people been economically successful in their operations?

MR. KIRK: I am not informed in a detailed way about the broiler business, but my understanding of the history of it is that it has been a system with many, many farmers and a good many processors going out of business and into bankruptcy. The margins have been narrowed very much. It is a tough business. The broiler industry now -- and when I

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COMMISSIONER BROWN: Have these small people been economically successful in their [illegible]

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speak of the industry I mean the people processing and selling the product of those who produce it, and the supplier of the feed and the eggs and the chicks, and so on -- is anxious to work out some way of not getting into these periods of over-production. The industry itself wants to stabilize its production in an orderly relationship to the market.

COMMISSIONER BROWN: In other words, it should not be so competitive?

DR. HOPPER: Yes.

COMMISSIONER BROWN: I have just got a question here: In two places you make an implied recommendation, though you do not really make a recommendation, that the government should be represented on the boards of the banks. Is this a serious recommendation? Do you feel there is not enough inspection now of the banks, of their policies and controls indirectly through the Bank of Canada? What is the point behind this?

MR. KIRK: We are not taking a strong position on this at all, but our point is, if it is the case, in view of the very large accumulations of capital and the very great role some single corporations play in the whole investment picture, we say that these institutions really have a public policy role. I mean the institutions themselves. We are not making accusations; we are just suggesting that one way, perhaps, of ensuring us responsible co-ordination of government intent and public policy in the operations of these institutions might be to have an operational connection as opposed to a supervisory and regulatory one through having somebody on the board who would then know intimately the nature of the operations and then get the whole job done better as a result.

As I say, we are not experts in this field. We make the suggestion because it seems to us that if there is going to be any degree of direction and planning of the economy in institutions, by decisions they make as to whether

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As I say, we are not experts in this field. We make one suggestion because it seems to us that if there is going to be any degree of direction and planning of the economy in institutions, by decisions they make as to whether

to invest or not and where to invest, and what kind of government financial operations in the market to support or not to support, it seems to us, just looking at it from outside, that these institutions must almost inevitably become vested with quite a semi-public role almost, because of their size.

COMMISSIONER BROWN: Do you not think this has implications for the future, in starting something that continues on and on , till the government has a say in everybody's business?

MR. KIRK: I think those are the questions that arise, yes.

COMMISSIONER BROWN: The other point I wanted to ask about is this, just at the conclusion you say, in talking about high interest rates: "Credit that costs the borrower upwards of 24 per cent is not good credit." Presumably you have a veiw,then, on what is good credit?

MR. KIRK: I think our view is that good credit is closer to 6 per cent than 24 per cent.

COMMISSIONER BROWN: How about the 12 per cent that credit unions charge?

MR. KIRK: That is right. The credit unions charge more for their credit, I agree. Most of them charge more than 6 per cent. This is the position they are in, and we have no quarrel with that, except that we would like to see credit union rates at as low a rate as possible.

Mind you, they are owned by the people who use them, and in that sense they are a self-contained operation.

THE CHAIRMAN: But apparently they cannot operate at less than 12 per cent. How can you expect the banks to operate at 6 per cent?

MR. KIRK: I think that is true.

THE CHAIRMAN: Why do you expect the banks to operate at 6 per cent, when the credit unions cannot?

MR. KIRK: The banks do in fact operate at 6 per cent.

THE CHAIRMAN: The credit union officials generally act for nothing and there is hardly any wage or salary overhead involved. Also they have very little in the way of office overheads.

MR. KIRK: There is a great deal of voluntary work, but they are staffed.

THE CHAIRMAN: Yes, and yet they cannot lend at much less than 12 per cent. How do you explain that?

MR. KIRK: In part it is a decision of the credit union as between the rates of interest, the charges on the one hand and the returns to the savers on the other.

THE CHAIRMAN: But they are very small, the returns to the savers?

MR. KIRK: Well, I do not know.

COMMISSIONER BROWN: I did not want to embarrass you on this.

MR. KIRK: No, I am not embarrassed. The only credit union I ever belonged to -- and there is no group I can belong to in Ottawa -- the rate was 6 per cent, and I got a half per cent interest in the form of insurance and half per cent dividend on the loan, so my own experience of credit unions was a net 5 per cent rate; but I agree that many credit unions charge more than that, and perhaps most.

COMMISSIONER BROWN: So this is a matter of degree. The Federation has no point of view on what is a good rate: They recognize 6 per cent as acceptable, prefer 5 per cent, and recognize 24 per cent as unacceptable.

MR. KIRK: The credit union experience on losses is very low. We think 24 per cent interest rates either an exploitive interest rate or indicative of high cost, or a combination of both. When the cost of giving credit is so high it must mean that some of it should not be acquired by the borrower.

COMMISSIONER MACKINTOSH: I think, in fairness to Mr. Kirk, the issues on which he wanted an approved maximum rate of interest were predominantly different kinds of loans from the small loans on credit.

THE CHAIRMAN: Gentlemen, we thank you very much for submitting yourselves to this discussion. It has been very helpful to us, and we are extremely glad to have your views on the various complex

questions with which you and we are concerned.

MR. KIRK: Thank you.

DR. HOPPER: Thank you.

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SUBMISSION OF

CANADIAN IMPORTERS AND TRADERS

ASSOCIATION INCORPORATED

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APPEARANCES

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|---|---|---|
| H.C. MacKendrick | - | General Manager, Canadian Importers and Traders Association Incoporated |
| S. Beaney | - | Honorary Treasurer, Canadian Importers and Traders Association Incorporated |
| A. Clavir | - | Director, Canadian Importers and Traders Association Incorporated |
| N. Vickery | - | Assistant to the General Manager, Canadian Importers and Traders Association Incorporated. |

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THE CHAIRMAN: Mr. MacKendrick, perhaps you would introduce your delegation.

MR. MacKENDRICK: If I may, Mr. Chairman. My name is H.C. MacKendrick, and I am the General Manager of the Canadian Importers and Traders Association. Sitting next to me is Mr. S. Beaney, who is the Honorary Treasurer of the Association. Next to him is Mr. Alan Clavir, who is a Director of the Association and has been Chairman of the Committee which assisted to prepare the brief.

On the flank is Mr. Norman Vickery, who is Assistant to the General Manager.

THE CHAIRMAN: Thank you very much. I do not know that it is necessary for you to make any general statement at this stage. We have all read the brief and are ready to put some questions to you, if that is satisfactory.

MR. MacKENDRICK: Yes, sir.

COMMISSIONER GIBSON: Mr. Chairman, perhaps I might ask one or two broad questions. One of the strongest points you make in your brief is that you regard the reduction in the foreign exchange value of the Canadian dollar as harmful to the economy. From my reading of your brief I take it your reasoning is based on the thought that this will produce cost increases followed by price increases, and thre is a suggestion too that this will result in unemployment. Would you care to elaborate on this a little? This is not the widely held view in many other sectors as to the effect of a change in the exchange rate. We have had a very serious deficit in the balance of our payments.

MR. BEANEY: We look upon the devaluation of the Canadian dollar purely in this brief from the importers' standpoint. Now, the importer does not necessarily mean an individual firm who are importing consumer goods for resale, but it can mean an industry importing equipment for their use or raw materials for re-processing. It is

I ask Mr. [illegible], who is Assistant to the [illegible].

[illegible] I do not know that it is necessary for you to make a general statement at this [illegible]. We have all read the [illegible] and are ready to [illegible] questions to you, if that is satisfactory.

[illegible] Yes, sir.

[illegible] Perhaps I might ask one or two questions. One of the [illegible], point you make in your [illegible] is that you regard the [illegible] in the [illegible] value of the [illegible] of [illegible] to the economy. [illegible] I take it your reasoning is [illegible] that this will produce [illegible] value increases, [illegible] there is [illegible] Would you care to elaborate on this a little? [illegible] held view in many other [illegible] on the effect of a [illegible] that we have had a very [illegible] of our payments.

[illegible] I [illegible] the [illegible] this [illegible]

[illegible] not necessarily mean [illegible] commodity goods [illegible]

[illegible] imports [illegible]

[illegible] new [illegible]

quite obvious that if the rate of exchange gets too far out of hand , while it affects consumer goods and therefore the cost of purchasing them, it also affects the cost of the machinery that is imported, particularly the type of a class or kind not made in Canada, and it affects the raw materials, many of which are not available in Canada. It is quite obvious that with those costs in the background eventually they are going to find their way into the cost of the materials which they are producing and will mean an increase in cost to the end consumer.

How does that affect employment? Well, it is quite obvious that if the prices get too high buying resistance is going to take effect. They are going to make less and some of us are not going to have a job.

COMMISSIONER GIBSON: I think we can all understand that as importers you do not like to see the foreign exchange value of the dollar reduced. It is perfectly clear to anyone who uses a sizeable amount of imported goods, whether it is materials or machinery, that this causes cost increases in this respect. But you do suggest it is not going to be ultimately good for the economy. There are certainly a lot of other groups in the community who think this is a good thing, and who think it will enable them to increase their sales and employment. These are people who are both exporters and domestic industries who have

been feeling import competition. It seems to me you are going only as far as your direct interests and those of the people who buy from you are concerned.

MR. MacKENDRICK: No, not quite, because the interest of the import trade is in a prosperous Canada. If the country is not prosperous, then nobody is going to buy imports. We feel that Canada's role has become increasingly that of an international trader. Our economy is one of high cost. We are not able to compete in many of the world markets because of our high costs. We must, I think, increasingly be able to compete in the world markets.

COMMISSIONER GIBSON: Will not the change in the exchange rate improve our competitive position?

MR. MacKENDRICK: It does to a certain degree, but it will also increase our cost, not only in our foreign competitive position but in our domestic competitive position, and already certain industries are finding their costs have materially increased because of the devaluation of the dollar. After all, roughly two-thirds of all the merchandise imports into Canada are utilized in the production of goods; only one-third is what is called consumer or shelf goods.

COMMISSIONER GIBSON: I think we all agree about trade being a two-way street, and so on, but we do have a big deficit in our current

less feeling import competition. It seems to me you are going only as far as your direct interests and those of the people who [illegible] you [illegible]

[illegible]

MR. MacKENDRICK: [illegible] not quite, because the interest of the import trade is in a prosperous Canada. If the country is not prosperous, then nobody is going to buy imports. We feel that Canada's role has become increasingly that of an international trader. Our economy is one of high cost. We are not able to [illegible] of the world markets because of our high costs. We must, I think, increasingly be able to compete in the world markets.

COMMISSIONER GIBSON: [illegible] change in the exchange rate [illegible] competitive position?

MR. MacKENDRICK: It [illegible] degree, but it will also increase our costs, not only in our foreign competitive position but in our domestic competitive position, and already [illegible] industries are finding their cost of raw materials increased because of the [illegible] American [illegible] two-thirds of all the [illegible] also [illegible] the production of goods [illegible] consumer [illegible] their goods.

COMMISSIONER GIBSON: [illegible] agree [illegible] trade [illegible]

balance of payments, and something needs to be done about it. If you do not like a reduction in exchange rates, what do you like best?

MR. MacKENDRICK: According to our figuring, based on Bank of Canada statistics, the merchandise trade -- and I use that in a broad sense, as opposed to monetary transactions -- over the past four years has accounted for 11 per cent of our balance of payments difficulty.

COMMISSIONER GIBSON: But the rest is services?

MR. MacKENDRICK: Yes.

COMMISSIONER GIBSON: And freights which are associated with merchandise; it is tourist trade and interest payments on loans we have had in the past. We have to pay these currently.

MR. MacKENDRICK: That is true.

COMMISSIONER GIBSON: You cannot get the services pulled down; that is a very long process. You can improve your merchandise balance to put the thing in order.

MR. MacKENDRICK: One way of doing that would be to reduce our costs and make us more competitive, so instead of reducing our imports we might increase our exports.

COMMISSIONER GIBSON: Do you see much evidence of displacement of imports in the economy, as yet?

MR. MacKENDRICK: Yes, sir, there is a certain displacement. Of course, we are not

able to collect figures on the basis of D.B.S. or the Bank of Canada. Our information naturally must come from our members and from these other sources that I have mentioned. But we know that definitely certain merchandisers have had to abandon the importation of certain lines of merchandise. I do not mean we know of import firms who have had to close their doors, but certain import firms are no longer able to sell with the dollar in its present devalued state. You asked for evidence of it. This, I think, is evidence that some of these commodities are being affected.

COMMISSIONER GIBSON: Is this over a fairly wide field?

MR. MacKENDRICK: Yes, this is over a fairly wide field.

COMMISSIONER GIBSON: Are you talking about mainly finished consumer goods?

MR. MacKENDRICK: No, mainly of raw and semi-finished materials.

COMMISSIONER GIBSON: Where do those materials come from now?

MR. MacKENDRICK: They are coming from either domestic sources or a substitute is being found for them.

COMMISSIONER GIBSON: Would not the exchange rate have affected imported consumer goods as well?

MR. MacKENDRICK: Yes, the exchange rate has affected imported consumer goods, but there is

perhaps not the keen price competition there; but undoubtedly certain lines of consumer goods have been affected as well.

COMMISSIONER GIBSON: I have one other question but it is in a rather different context. Do any of the other Commissioners wish to ask further questions along this line?

COMMISSIONER HARROLD: Mr. Gibson asked you how you would compete and you said to reduce costs. What did you have in mind?

MR. MacKENDRICK: We are getting into a very broad field. If our costs could be reduced we would be more competitive in the world markets. As to the means of reducing costs, one of the means has already been suggested, to make it easier or less costly to make those goods that it is necessary to import or which it is profitable to import, coupled with a reduction -- I am now departing a little from our field -- in governmental costs, management costs and labour costs.

COMMISSIONER BROWN: But you do not think that the change in the exchange rate has made our export industries more competitive?

MR. MacKENDRICK: Oh, yes, I am sure it has. I am sorry if I gave another impression. It has made our industry more competitive except that in certain lines the prices of a material are not set in Canada. They are set in the world market or the New York market.

COMMISSIONER BROWN: If that is so it enables us to export more, does it not?

MR. MacKENDRICK: It means that our price does not come down in the world market.

MR. VICKERY: Our feeling is that this is

giving a short-term advantage to our export trade. There is no argument there at all as far as we are concerned, that obviously there is a short-term advantage. Our feeling is that the cost increases which will be engendered by higher imports -- after all some 15 per cent of our Gross National Products is made up of imports -- will bring about a gradual erosion in the cost structure and eventually this will add to export costs. Therefore, what you gain in one way you will eventually lose in the other, and the net result will be that our dollar will be worth less than it was before.

THE CHAIRMAN: When the dollar was at a premium do you say that was a good thing for the economy of this country?

MR. CLAVIR: We have to distinguish in our thinking between the concept of the cost of goods as opposed to the cost of services. But just to summarize may I say that when we import those goods which make up a large proportion of our export costs, I think when they cost us less here in Canada -- those basic materials which you cannot find in Canada -- that our export prices of those goods are in the long run increased by these variations in the exchange rate. I think this is our primary concern.

THE CHAIRMAN: When the dollar was at a premium did that condition not to some extent contribute to our imbalance of exchange?

MR. CLAVIR: Yes, sir, it did, but I think it helped reduce the cost of those goods which went into

giving a short-term advantage to our export trade. There is no argument there at all as far as we are concerned, that for one thing there is a short-term advantage. Our feeling is that the cost increases [illegible] will be [illegible] by higher imports [illegible] of our Gross National Product [illegible] of imports -- will [illegible] a general [illegible] in the cost structure and eventually this will [illegible] exports. Therefore, what you gain in one way you will eventually lose in the other, and the net result will be that our dollar will be worth less than it was before.

THE CHAIRMAN: When the dollar was at a premium do you say that was a good thing for the economy of this country?

MR. CLAVIR: We have to [illegible] in our thinking between the concept of the [illegible] as opposed to the cost of [illegible]. [illegible] I say more when we import [illegible] goods which make up a large proportion of our [illegible] I think that they cost us less here in Canada -- [illegible] materials which you cannot find in Canada -- [illegible] the prices of those goods [illegible] be [illegible] by these variations in the exchange rate. I think this is our primary concern.

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MR. CLAVIR: Yes, sir, it [illegible], but I think it helped reduce the cost of those goods which [illegible]

our exports and possibly would have been reflected in the overall costing of the goods because many of these goods have a labour factor in them. It is quite conceivable that the merchandise costs were lower but other factors were higher.

THE CHAIRMAN: Do you think under present conditions we would be better off with a premium?

MR. CLAVIR: I do not think we would be better off with a premium, but I think we would be better off with a rate that was more closely reflected in the balance of movements of goods as opposed to the overall picture, in order to be competitive in the goods market.

COMMISSIONER BROWN: How do you propose in the long run that these services be paid for? After all, if we are going to have these services we have to pay for them somehow, and the only way we can pay for them is by more exports. What would the alternative method of payment be?

MR. CLAVIR: The alternative method in the long run is through both goods and services. Not only do we have to watch the goods part of our exports but we also must watch the services part, and as a country we should try and bring many more of those services under our jurisdiction. Possibly the transportation industry might be an example of this.

COMMISSIONER LEMAN: You can argue a great deal about what the rates should be, but what do you think about pegged rates as against free rates as a method of operation?

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MR. [illegible]: The alternative method in the long run is through both goods and services. Not only do we have to watch the goods part of the export but we also must watch the services part, and as a country we should try and bring more [illegible] of these services under our own [illegible]. Possibly the [illegible] industry might be an example of that.

COMMISSIONER [illegible]: You can argue a great deal about what the rates should be, but what do you know about pegged rates as against free rates as [illegible]

MR. MacKENDRICK: I think we have included this in our brief. There is a variance of opinion. I think we have stated on page 3 of our brief that there is a difference of opinion among our members. Some of them favour a free floating rate while others favour a fixed rate. With a fixed rate an importer, who is in fact a merchandiser, has more time, to use the word loosely, consider the merchandising aspect of his business, by which I mean buying at one price and selling at another and having enough difference to give him a living. If he has to constantly watch the export market this detracts from his ability to carry on his other activities. Importers vary from very large corporations to very small one-man operations. The larger corporations are better able to deal with problems of this sort than is the small operator. Therefore, many people would like to see a fixed rate so that he has some assurance, if he orders goods from a foreign country to be shipped in three months and payable in 60 days after shipment, or 30 days, or on arrival, he knows what the goods are going to cost him. His only alternative in good business practice, it seems to us, is that if he makes a commitment to pay a foreign bill he must purchase a future commitment in order to pay for it. This is the practice we feel that most of the importers are following. It is true that he can, in effect, gamble, and if it is going to cost him most of his own Canadian money to pay for the goods, he will win. On the other hand, he can be very badly fooled and the goods will cost him

MR. MacCORMICK: I think we have [illegible] this in our brief. There is a difference of opinion. I think we have stated on page [illegible] of our brief that there is a difference of opinion among our members. Some of them favour a free floating rate while others favour a fixed rate. With a fixed rate an importer, who is in fact a merchandiser, [illegible], to use the word loosely, considers the merchandising aspect of his business, by which I mean buying at one price and selling at another and having enough difference to give him a living. If he has to [illegible], much the export market this [illegible] from a [illegible] to carry on his other activities. [illegible] very large corporations to [illegible] problems. The larger corporations are better able to deal with problems of this sort than is the small operator. Therefore, many people would like to see a fixed rate so that he has some assurance, if he buys goods from a foreign country to be shipped in three months and payable in 90 days after arrival, or 30 days, or on arrival, he knows what the goods are going to cost him. The only alternative in most instances, I believe, it seems to me, is that if he [illegible] buy a forward but he must pay [illegible] premium [illegible] to pay for it. [illegible] feel that many of the importers [illegible] [illegible] going to cost him more [illegible] pay for the goods, he will win. [illegible] he can be very badly hurt [illegible]

more. But in the meantime many of these importers, merchandisers, have got to sell long in advance. Sometimes they have catalogues and price lists which must of necessity be got out considerably in advance of the time of payment for their goods. This presents difficulties if they are in doubt as to what their goods are going to cost them.

When devaluation occurred there were many firms who showed either a loss on the sale of their goods or at least no profit. There were some who suffered a considerable loss. They had committed themselves to sell goods. For example, an importer of men's woollen socks got a large shipment and had committed himself. He bought them in the spring and he arranged to have them delivered in the late summer so that his retail customers might have them in the early fall. He was showing a loss on every dozen pair of socks he sold and he was in a quandry. He knew if he went to his customers and asked for more money they would say, "No, you take the socks." As he put it rather graphically, "I am better to have a loss on my books than a warehouse full of socks that I cannot sell."

COMMISSIONER MACKINTOSH: Does this division of opinion pretty well correspond with the division between large and small firms?

MR. MacKENDRICK: "Pretty well" is as close as I would care to go. There are many large firms who are not flexible enough, and there are many small operators who because of their keen minds

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COMMISSIONER MacGREGOR: Does this division of opinion pretty well correspond with the division between large and small firms?

MR. MacNAMARA: "Pretty well" is as close as I would care to go. There are many large firms who are not flexible enough, and there are many small operators who because of their keen minds

are better able to compete.

COMMISSIONER GIBSON: What is the effect of changing credit conditions on your price? For instance, when money is tight, as it has been twice in recent years, are your members able to get more financing outside the country? Is there a fair amount of flexibility here?

MR. BEANEY: As far as most importers are concerned they do have their credits arranged for many of their shipments beforehand. Where there is any difficulty there are other sources of credit for an importer. Factoring is one of them. It is not a very big item here in Canada yet but it is possible, if a man is stuck as far as the banks are concerned, to arrange for factoring.

COMMISSIONER GIBSON: This is more expensive, is it?

MR. BEANEY: It runs around 8 per cent, but it is there. Generally speaking, however, I do not think the importers suffered too much from the credit restrictions.

COMMISSIONER GIBSON: Can you push it back to the person you are buying your goods from abroad? Can you do that sometimes?

MR. BEANEY: That is sometimes arranged.

MR. CLAVIR: It might be helpful if we could review for a moment the mechanics of an import. By and large the financing of imports is usually done by the vendor in the foreign country. It is usually up to the importer to finance transportation, duties and taxes

so that the area of any credit squeeze, if we might use that term, falls on his financing of those services more than on the actual financing of the goods.

COMMISSIONER GIBSON: And this is pretty generally the case, isn't it?

MR. MacKENDRICK: I would say so, yes. That is by the nature of our Canadian Customs Regulations where the importer is responsible for duty and taxes as opposed to the exporter.

COMMISSIONER LEMAN: Yes, but the foreign supplier finances up to what point in time, up to a point where the importer gets delivery or does he finance until the importer can get cash from his customers?

MR. BEANEY: That is usually an individual arrangement. Some exporters in the foreign countries ship to the Canadian importer on the same terms as they do within their home market. It may be on a 30-day basis or a 60-day basis or whatever the open invoice happens to be. In other countries -- and this is particularly true of Japan, for example -- practically all of the exports are financed on letters of credit. Quite obviously that must be arranged by the bank long before the goods are shipped. The other normal method is on a site draft or a 60-day draft, and there again that is usually arranged with the bank long before the goods are shipped.

COMMISSIONER MACKINTOSH: That is with the importer's bank?

MR. BEANEY: Yes, that is with the importer's

bank, with the bank here in Canada.

COMMISSIONER BROWN: In other words, you have no problems in regard to a credit squeeze?

MR. BEANEY: No. There may have been the odd one who has had a problem, but not generally speaking. This cessation of the overdraft has created a big problem among many, many of our members. Perhaps it was because it was sawed off so quickly. The overdraft, of course, was an easy way in which to pay the normal bills. We are not talking now of the imported item but the account for duty and the freight and the normal business operations. Between the time the goods are in and paid for and the time he gets his money he may want ten or fifteen days, and the overdraft is an easy and convenient way of doing it. When that is taken off he has to find other sources quickly. If his bank is going to make him a loan on a 30-day basis, it means he is paying for days which he really does not need that money.

COMMISSIONER BROWN: Can he not borrow for less than 30 days?

MR. BEANEY: That depends largely on the bank manager. I think 15 is the minimum, but as soon as it gets less than that they seem to look upon it as an overdraft and say no. And they do it very well, too.

MR. MacKENDRICK: Thirty days seems to be in the contacts I have had with members. Whether or not they have really gone to the mat with the bankers, I do not know, but apparently they are requested to borrow

on a 30-day basis.

COMMISSIONER BROWN: But can they borrow for less? That is my question.

MR. MacKENDRICK: I cannot answer that question definitely.

MR. BEANEY: I have borrowed for less. I have borrowed for 15 days, but I do not know if it is general practice. Let me put it this way. I do not know if it is general practice, but I know it has been done.

MR. MacKENDRICK: Perhaps I might interject that this raises a point which is contained in our brief, and that is that if you are dealing with a bank that is accustomed to foreign transactions your way is comparatively smooth, but it is true that because of the urban sprawl, I think you call it, many members are dealing with small branch banks whose staff members obviously cannot be as familiar with foreign transactions as the staff members of what we call the downtown banks, which have many foreign traders as their customers. This presents a real difficulty. I do not say it is of the greatest magnitude, but it does present a real difficulty. The solution, of course, is to have information on foreign transactions better known by the staffs of certain branches of banks or have a little quicker means of finding the answer from the head office or the main office.

COMMISSIONER BROWN: Yes, or deal with larger branches?

MR. MacKENDRICK: Yes, or deal with larger branches, but the bank is three-quarters of an hour away by car -- from the larger branch -- and three-quarters of an hour back, and ten minutes for the banker to say no.

COMMISSIONER BROWN: That is his choice; the branch hasn't moved away from him.

MR. MacKENDRICK: No, it is not altogether his choice; sometimes he is forced by the economics of the real estate market to do that.

THE CHAIRMAN: By being an importer, just what does that cover? A great many importers are in the retail business and they import, do they, frequently?

MR. MacKENDRICK: I think that there is ---

THE CHAIRMAN: When you speak of an importer, is that a business by itself in all cases or is it mixed with retail?

MR. MacKENDRICK: I have been the manager of the Importers' Association for 14 years, sir, and I don't know what an importer is yet!

THE CHAIRMAN: If you don't know ---

MR. MacKENDRICK: There is such a difference.

THE CHAIRMAN: And we would like to know what a bank is.

MR. MacKENDRICK: Certainly some of the larger mercantile retail organizations are large importers and some of the large chains are large

importers. Others prefer to buy through agents or importers who carry a stock, and generally speaking you will find that aside from the large stores, that the retailer doesn't import direct.

There are variations on that, of course; people in specialized fields, such as a man who has established a shop selling nothing but cheese in Toronto and from all kinds of countries in the world. It is a small operation, but he does a good deal of his own importing. But if you like to go to one of the larger chain groceterias, you will find that they don't buy abroad at all, they purchase from local importers or agents.

We consider within our own organization that the whole fee structure of an importer is based -- the importer is the one who carries the stock, and we consider a man who sells from a catalogue or some samples and doesn't carry the stock, we call him a manufacturers' agent, but I think it is worth saying that some of the larger importers, dollar-wise and volume-wise, are in fact manufacturers.

THE CHAIRMAN: Importing the raw materials?

MR. MacKENDRICK: Yes, the raw and semi-finished materials.

COMMISSIONER LEMAN: And they don't belong to your Association?

MR. MacKENDRICK: No, I am sorry, they don't.

THE CHAIRMAN: Any further questions?

COMMISSIONER LEMAN: I would like to ask a question on detail. You do complain about the prevelant practice of people issuing N.S.F. cheques. Then you cite the French example of handling this problem, but then when you come to Canada you don't say that that is what you would suggest, the same way of treating this as the French do. What is your specific thought?

MR. MacKENDRICK: I am afraid we don't consider ourselves sufficiently farmiliar with the banking profession to be bold enough to make a suggestion. I am afraid we were not very constructive in that regard. It is a problem, however, and you will note that it is dealt with better in some other countries.

COMMISSIONER LEMAN: You see, the banks can't make a crime of this unless the legislature says it is a crime. This represents a cost to the banks, too; N.S.F. cheques create problems for the banks, they have to be processed, et cetera, and they don't like them any more than you do.

MR. MacKENDRICK: Certainly not.

COMMISSIONER LEMAN: But nevertheless there is nothing in the law which makes it illegal to overdraw an account. As a matter of fact, some overdrafts were a form of issuing N.S.F. cheques, were they not?

MR. MacKENDRICK: Of course.

COMMISSIONER LEMAN: There has been quite a bit of talk about the relevancy in Canada of the

Bankers' Acceptance financing on short-term. Do you think there would be room among your larger importers for the use of this device?

MR. MacKENDRICK: I will have to confer a minute to see who can give you the best answer.

COMMISSIONER LEMAN: Do you believe there is not enough of volume financing in your business? You tell us that usually you don't finance the goods themselves for any length of time, and the Bankers' Acceptance isn't a device that you can use for a $100 transaction, they are usually large.

MR. BEANEY: I think they might be used under exceptional circumstances for large imports exceeding $10,000 where you are running into the limit with your local bank. It would come under somewhat the same idea as a factor and, as a matter of fact, they do work similar to a factor. The importer, of course, always has a factor he can fall back on for short-term purposes. You know what I mean by a factor?

COMMISSIONER LEMAN: I think so.

MR. BEANEY: He can always fall back on the factor, and I have an idea that Bankers' Acceptance would be a very similar proposition. It would just give them another credit source.

THE CHAIRMAN: But considerably cheaper than the factor?

MR. BEANEY: Yes, it would be.

MR. MacKENDRICK: There is a point if I may raise it, Mr. Chairman. Many transactions on

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goods have to be financed for a lengthy period. I gathered from what you said that we were giving the impression that the goods themselves didn't have to be financed, but that the services did, over periods; many goods have to be financed over lengthy periods. This is particularly the case when you are dealing with certain countries which are able to make a favourable price, particularly in Japan where, I think I am correct in saying, the government regulations require a letter of credit with the order. Certainly the practice is that they require a letter of credit with the order, so a man may have to place an order now and wait until the goods are manufactured and shipped by ocean freight, and it frequently can amount to six months, so that sometimes it is necessary to get a large credit for a lengthy time.

There is another factor in that which is perhaps worth mention, another slant on that, and that is that in certain industries the importers orders the goods and he doesn't know what his price is going to be.

An example of that is fine china, which comes in in very large quantities from England. Whether they have changed it recently or not I am not quite sure, but as of not very long ago if you wanted to buy fine china from England you bought it on the basis of prices ruled at the time of shipment. You place an order for $50,000 worth of china in the spring, hoping to get it in

goods have [illegible] but [illegible] for a long [illegible], [illegible].
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There is another [illegible] perhaps would mention, [illegible] that is that in certain [illegible] exceeds the [illegible] price [illegible].

[illegible] of [illegible] comes [illegible] very large [illegible] [illegible] I am not [illegible] if you [illegible] [illegible] on the basis of [illegible] time of shipment. [illegible] \$[illegible],000 worth of [illegible] in one [illegible]

time for the Christmas trade and probably it would arrive in late October or early November, and only when it arrives do you know how much it has cost you, and the importer having already sold it at a price which he had to stick to.

THE CHAIRMAN: Are there any further questions?

We are very much obliged to you gentlemen for your assistance. Thank you very much.

We will adjourn now until 9.15 A.M. on Monday next when we shall hear the Federated Council of Sales Finance Companies.

--- Adjournment

# Royal Commission on Banking and Finance

CANADIAN IMPORTERS & TRADERS ASS'N. INC.
and
CANADIAN FEDERATION OF AGRICULTURE

Hearings held at

OTTAWA

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CANADIAN IMPORTERS & TRADERS
ASSOCIATION INC.

BRIEF

PRESENTED TO

THE ROYAL COMMISSION ON BANKING AND FINANCE

The Canadian Importers and Traders Association is a non political and non profit national organization which seeks to serve the interests of its more than 500 business member firms. These member firms are either directly or indirectly engaged in the importation of goods for further processing or for resale, or are providing services to the import trade. The Association believes that the promotion of policies which will improve the prosperity of the country are essential for the prosperity of the import trade. Canadian importers have only one customer and that is Canada. It is therefore axiomatic that the prosperity of our members is dependent on the prosperity of this country.

For many years the Association has been recommending that the economic growth necessary for a prosperous Canada is dependent upon increasing our export sales. To achieve this additional export business we advocate that this country must pursue a policy that will encourage the other nations of the world to trade with us. Trade is a two-way street and if we want to improve our trading relations with the rest of the world then we must ensure it is an attractive proposition for these nations to want to trade with us.

The trend of the major industrial nations of the world in recent years to seek greater economic growth by trying to liberalize world trade has strengthened the resolve of this Association that

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Canada must pursue similar policies or risk being unable to participate in this opportunity for economic growth.

We advocate that in order to participate more fully in the opportunities offered by expanding world trade it will be necessary for government, management and labour to co-operate in order to reduce our high cost structure.

This Royal Commission is of course primarily interested in receiving suggestions for improvement in the current working of the Canadian financial and monetary system. We will be making suggestions along these lines and will also attempt to supply information concerning the financial requirements of our members.

We realize that in order to achieve the objective of our Association, which is a prosperous Canada, that a properly functioning and efficient monetary system is essential. Monetary policy by itself is not the instant medicine that willsolve our problems. However, unless our monetary policy is sound, it will negate our fiscal, tariff or even commercial policies even if such policies should themselves be excellent. These policies cannot be divorced from one another. As an example, a change in tariff policy will have an effect on monetary policy and vice versa. The appropriate role of monetary policy should be to inspire confidence in our currency at home and abroad. It should enable

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the business community to have a reasonable assurance that there will be no violent changes to upset their future. Finally, it should have a proper balance to ensure that monetary policy calculated to prevent inflation and reduce costs does not depress the economy.

Our members are very affected by the rate of exchange of the Canadian Dollar and by exchange rate policy. In discussing these matters, it is not possible to deal with the value of the Canadian Dollar in isolation from whether such a value should be obtained by a fixed, free or a manipulated variable rate. There is some difference of opinion amongst our members on these questions. There are also areas of complete agreement. We believe that it will be of benefit to the members of this Royal Commission in arriving at their conclusions and proposals if we attempt to show the reasons for the differences and agreements amongst members.

The disagreement is whether a free or a fixed rate is best. Those who favour a free rate do so for a number of reasons. The chief of these reasons being that it is economically sounder to have a free rate because it will better express the pressures that the Dollar has to bear. In addition, there is a great fear that unless there is a free rate the government would be obliged to introduce some forms of exchange control. It is felt that a free rate more accurately reflects the market conditions and that unlike a fixed rate it is not arbitrarily

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imposed. There is great concern as to whether Canada because of its peculiar position of being so close to the major supplier of capital in the world and also as a receiver of capital in large quantities from other nations would be able to maintain a fixed rate in spite of the tremendous pressures against the Dollar caused by capital movements and the tremendous changes in world trading conditions.

Those who favour a fixed rate are really more concerned with the commercial operations of their business. They find that it is difficult to set up selling prices if the currency tends to fluctuate. They are obliged to cost at an inflated figure, (if this is possible competitively) so as to ensure against an undue reduction in the value of the dollar. A fixed rate of exchange enables those who are engaged in international trade to spend very much less time on their banking operations. They are not obliged to consult the fluctuating value of the Canadian Dollar nor are they obliged to buy futures. As an example, with a free rate it is possible for international traders to make a bigger profit on their exchange operations than on the sale of their merchandise. It is of course just as possible for them to suffer a very heavy loss by exchange operations. This means that they are obliged to operate in an area in which they are much less familiar and far less talented than in their normal commercial operations. It is also more in keeping with the rules of the game inasmuch as the

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International Monetary Fund wants its members to maintain a fixed rate. In view of the increasing importance being given by the nations of the world to international trade as a means of promoting further economic growth and in view of the tremendous importance of this trade to Canada, it is probably better that we co-operate fully with the supreme international financial body.

There is complete agreement amongst our members that the value of the Canadian Dollar should not have been reduced in the manner in which it was. There is also agreement that a discount on the Canadian Dollar is not only harmful to the import trade but in the long run harmful to the Canadian economy as a whole. We recognize that there are short term economic advantages in reducing the value of the Canadian Dollar inasmuch as it places both our domestic and export industries in a better competitive position. However, this is likely to prove a pyrrhic victory. It must be realized that the two-thirds of our imported goods which are for the purpose of assisting industry, i.e. such items as raw and semi-finished materials, capital goods, etc., will add to industrial costs and as has happened in the past, these costs are likely to pyramid so that there will be a gradual erosion of this temporary competitive advantage. As regards the one-third of imported goods which are for consumers, the reduction in value of the Canadian Dollar will add to consumer costs and thus tend towards inflation. This will obviously bring about

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reduced effective purchasing power so that the Canadian consumer will be unable with the same amount of money to buy the same quantity of goods as before. This built-in consumer sales resistance will have a snow-balling effect in a natural consequence of reduced sales, increased unemployment, increased costs, reduced economic growth. This at the very period of our history when the natural consequence should be exactly the opposite. This is also at the very time when the challenge to Canadian business is so serious that it is necessary to put us in a competitive situation by natural rather than artificial means and by sound long term rather than unsound short term policies. It must also be remembered that our imbalance of payments difficulties are not due to our merchandise trade. In the years when we have had merchandise trade deficits these have only been a small part of our imbalance of payments situation. It must also be remembered that it is a fact of international trade that this trade is a two-way street and that any serious reduction in imports will cause a serious reduction in exports because it is our imports that enable the other countries of the world to pay for our exports.

In general terms, members of our Association have very much the same financial requirements as do other Canadian businessmen. We have in our membership a myriad of different types of businesses with the very large corporation on the one hand down to the one man business on the other. So that some have better opportunities and easier access to capital than others.

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Canadian consumer will be unable with the same amount of money to buy the same quantity of goods as before. This built-in consumer sales resistance will have a snow-balling effect in a natural consequence of reduced sales, increased unemployment, increased costs, reduced economic growth. This at the very period of our history when the natural consequence should be exactly the opposite. This is also at the very time when the challenge to Canadian customs is so serious that it is necessary to put us in a competitive situation by natural rather than artificial means and by sound long term rather than unsound short term policies. It must also be remembered that our imbalance of payments difficulties are not due to our merchandise trade. In the years when we have had merchandise trade deficits these have only been a small part of our imbalance of payments situation. It must also be remembered that it is a fact of international trade that this trade is a two-way street and that any serious reduction in imports will cause a serious reduction in exports because it is our imports that enable the other countries of the world to pay for our exports.

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However, those who are engaged in international trade do have different financial and credit problems from those businessmen who are purely concerned with domestic trade in as much as they are obliged to deal with banking and credit facilities on an international scale.

Some members find that there are difficulties for them in as much as there are occasions when documents arrive after arrival of a shipment which means delays and wasted time in order to track down the said documents. We have to recognize that this does not normally happen with the larger and in this respect better organized companies. Due to their larger size they are better organized in this respect because they are able to hire staff who willsee to it that delays of this kind do not occur. However, it is our feeling in view of the tremendous importance of international trade that there should be a review of the administrative procedures for the handling of financial documents so that it would be unnecessary to have importing firms spending time to ensure that documents of this kind arrive on time.

Another minor criticism that is made is that the smaller branches of some banks are not too conversant with the operations of their international department and any members who are obliged because of their geographic location to deal with a small branch of a bank find that there are frustrations and delays in getting information concerning such matters as letters of credit, etc. It is obviously uneconomical for the branches of the banks to have staff as adept and as

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informed in international financial matters as those of the headquarters of the international department. However, it is felt that at a very small cost and at a possible great improvement in efficiency and certainly at a great service to the international trading community that two things might be done. It should be possible to have written instructions concerning the more basic principles of international banking so that if questions concerning letters of credit or other international banking matters are asked they would be in a position to give some satisfaction. The other suggested course might be that there could be a more direct approach between the branch and the international department headquarters of the bank.

A specific suggestion has been given to us by a member of the Association. It concerns the question of N.S.F. cheques. An investigation could be made into the manner in which other countries deal with N.S.F. cheques. For instance in France, if a person draws a cheque and does not have sufficient funds to cover the amount, the paying bank will write on the bakc of the cheque the amount of his balance and pay out that amount advising the customer that his account was closed owing to the fact he had made an attempt of over-drawing his account without authority. There are some businessmen who offer post-dated cheques in order to gain time and when these cheques are presented for payment, they are returned N.S.F. and the customer therefore gains another month or so and strongly objects if he is charged interest. In reality this facility of drawing

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cheques without funds is not conducive to honesty and it is thought that the banks might be more severe with the type of accounts that issue N.S.F. cheques.

We wish to thank the members of the Royal Commission on Banking and Finance for the opportunity offered to the Canadian Importers & Traders Association to present their views concerning the current working of the Canadian Financial and Monetary System and suggestions for possible improvements. It is our hope that we may have been of some use as our aim is to submit views and proposals that are in the interests of a prosperous Canadian economy.

All of which is respectfully submitted.

(signed) A. T. Brodeur

(A. T. Brodeur)

President
CANADIAN IMPORTERS & TRADERS ASSOCIATION INC.

# SUMMARY

of

# SUBMISSION OF CANADIAN FEDERATION OF AGRICULTURE

At the outset of this brief the Canadian Federation of Agriculture gives a short description of the Federation and tells the extent to which it represents the farmers of Canada from coast to coast, and indicates the association it holds with domestic and international organizations.

The brief contains general observations on the role of government in the workings of the national financial system and its impact on agriculture; on agricultural production, marketing and pricings on the use of resources; on employment, and on other economic and social aspects of life in Canada. It develops the basic concern of farmers in respect to government programs and policies as they relate to their economic and social needs. It discusses the vital changes which are taking place in the farming industry - farm sizes, farm population, farm values, farm expenditures for the supplies and services and the cash and net incomes of farmers.

The ever growing needs of farmers for capital and credit for farm operation and for farm family living are reviewed and the sources and volume of governmental and non-governmental credit are shown.

The brief discusses the fact that the forces of economic change have resulted in the production of agricultural products in excess of effective domestic and export demand, and as a consequence the overall

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returns for the investment, labour and management of farm operators are quite low in comparison with the incomes of those with comparable investments in other industries.

The vital stake of farmers in the general health and growth of the Canadian economy is emphasized.

The submission makes policy recommendations respecting agricultural credit on the one hand, and on national general economic policy related to the Commission's work on the other.

Conclusions

1. The role of government in the economy must develop in the direction of its greater involvement in economic and social planning. By planning is meant the more systematic, institutionalized and continuing involvement of government in the direction, rationalization, control and functioning of our economic and social life, but in a framework which retains private enterprise and the competitive market mechanism as the fundamental and most important form of economic activity and means of economic regulation.

2. The farm economy is characterized by a rising level of production and capital investment, but a declining labour force, a chronic tendency to lagging farm income, and problems of adjustment.

3. Agriculturally, the choice is not between "government control" and the "free market", but rather the modification of the free market system by collective self-help, negotiation, agreement and controls.

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2. The farm economy is characterized by a rise in level of production and capital investment, by a declining labour force, by trends to larger farm units, and problems of adjustment.

3. Agriculturally, the choice is not between "government control" and the "free market", but rather the coordination of the free market structure with self-help, negotiation, cooperation and controls.

4. Overall returns to farming are low but the returns on new investment of capital on agriculture are probably quite high. The need is for farm credit policies that make possible necessary capital investment by farmers in agriculture, on a basis which provides equity of opportunity among farmers and encourages the maintenance of a healthy farm economy based on the family farm enterprise. Capital investment in agriculture is characterized by a number of special or unique features which make the development of governmental or governmentally sponsored credit programs a necessity.

5. In general farm policy should be aimed at making necessary economic adjustment take place in an orderly and stable way, and at the same time providing reasonable assistance and security in compensation for the considerable losses to farmers attendant on adjustment.

6. Institutions and policies for the general economy must be developed that will:

(a) Make possible the degree of overall planning and direction of the economy, and public investment policies, necessary for proper framework in which our free enterprise economy will operate effectively.

(b) Develop adequate public understanding of and information regarding the economic issues, and conditions, which face Canada, and provide for participation of responsible voluntary interest groups in the examination of these issues and conditions.

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[illegible] must be developed [illegible]

(a) [illegible] practices the degree [illegible] [illegible] direction [illegible]

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[illegible] and [illegible].

7. The preference in monetary and fiscal policy, if one is necessary, should be toward sustained growth and moderate inflation, as against an anti-inflationary policy which inhibits expansion. A relatively low level of interest rates should in general be favoured.

8. Canada's basic interest in external economic relations lies in progress and growth through international co-operation; international law and international agreement.

9. For humanitarian and economic reasons disclosure of finance charges should be encouraged.

Recommendations

1. A Federal policy providing for the granting of inter-free loans to farmers in cases of natural disaster should be instituted.

2. A special, flexible credit service, provided by the Farm Credit Corporation and operating to serve special needs of rural development programs should be provided.

3. Policies to better provide for initial transfer capital for farmers entering farming, as well as for development capital, are needed. To be successful as a modern farmer adequate development capital is of major importance but the acquiring of this capital may often be difficult. It is recommended that a searching enquiry be undertaken into a policy of providing permanent types of mortgages or the issuance of long-term interest bearing securities for

family farm acquisition.

4. An adequate policy of providing loans for housing on farms that does not require the farmer to mortgage his productive land and so tie up his access to long-term production credit, is required.

5. Intensive and continuing study of farm credit needs and their implications for the long-term development of the farm economy should be undertaken. The Farm Credit Corporation should have a competent and active research division.

6. Interest rates for Farm Credit Corporation loans and Farm Improvement Loans should not be raised.

7. The maximum interest rate limitation on banks should be retained at its present level.

8. It is also the view of the Federation that loans to specialized poultry and egg enterprises should be the business of the Farm Credit Corporation rather than the Industrial Bank.

9. The Agricultural Rehabilitation and Development Act programs should be actively pursued.

10. These should be created:

(a) A National economic planning body of government attached to the Cabinet.

(b) A national Economic Advisory Planning Council with responsibilities for informing the public about economic issues and conditions, as well as for advising the government, and with a secretariat of its own.

(c) Provision for more independent

research in economic policy, including agricultural policy.

11. The national accounts should be developed on a basis that separates investment and current accounts.

12. The fundamental direction of our trade policy should be toward freer trade. The basis of our external agricultural policy should be to favour international consultation and agreement on prices, markets and surplus problems.

13. Legislation requiring disclosure of finance charges in the form of simple annual rate of interest, and for restricting the rate that may be charged on consumer purchasing, should be enacted.

## SUBMISSION OF

## CANADIAN FEDERATION OF AGRICULTURE

### 1. WHAT THE CANADIAN FEDERATION OF AGRICULTURE IS

The Canadian Federation of Agriculture is the national, general farm organization in Canada, designed to provide a place within its structure for representation by all bona-fide organizations of farmers, whether direct membership organizations, commodity associations, farm co-operatives, farm women's organizations, marketing boards, agricultural institutes, or other forms of association. Its goal is united action by farmers directed to the achievement of self-help and government policy in the best interests of the farmer. It is primarily a federation of federations, provincially and on a national commodity basis. Though there is of course overlapping of membership, and no exact figure of farmer membership is possible, the Federation, we believe, represents more than three quarters of the farmers in Canada. The structure of its provincial Federations varies from province to province. In Appendix A a quite complete list of the organizations which make up the Canadian Federationof Agriculture is provided for the information of the Commission.

The Canadian Federation of Agriculture has been in continuous existence for more than a quarter of a century. It is, internationally, a member of the International Federation of Agricultural Producers, representative of the national farm organizations of

some 30 countries. It is also a sponsor, with the CBC and the Canadian Association for Adult Education, of a major and important adult education undertaking among farm people - National Farm Radio Forum. This national use of radio network broadcasts combined with neighbourhood discussions groups and printed supplementary material represents a program in adult education that has continued in Canada for more than 20 years without interruption, and has been copies in its basic features in a number of countries, among them India, France and Japan.

The present submission will not, as is sometimes the case, be parallelled by submissions from our member organizations across the country. That is to say, it will be the principle, if not the only, submission on behalf of its members. It should be added that representations relating specifically to the co-operative movement will be left to the organized co-operative and credit union movements as such. The Federation supports the principles of co-operative action as basic to a healthy, democratic society, and has of course many farmer co-operatives among its membership.

The policy recommendations, and the viewpoints and arguments put forward in this submission have been considered and approved by the Executive of the Federation.

## SOME GENERAL OBSERVATIONS OF THE ROLE OF GOVERNMENT IN THE ECONOMY

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The policy recommendations [illegible]

[illegible] considered and approved [illegible]

considered from a number of viewpoints - their effects on the growth dynamics of the economy, their effects upon the best allocation and use of resources, their effects upon the distribution of wealth, their regional effects and their effects upon individuals and groups from the point of view of equity and social policy.

Agriculture - considered as the business of primary production of food, fibre and industrial products gained from the cultivation of the land - is a major industry in Canada. The size and extent of the industry is described and analyzed subsequently in this submission.

The question of how to achieve the best utilization of resources in agriculture is an important one. Also important for policy in themselves as well as in the context of efficient resource use are questions of how the land resources in agriculture are held, the nature of, or absence of, economic opportunities to engage in agriculture, the direction and pace of economic development and adjustment in agriculture, and in general the economic and social conditions of life of farm and rural people - as these are affected by policy in the fields of banking and finance.

We would like, early in this submission, to make some general observations which we think have relevance to our comments on policy in a number of connections, in both the field of general monetary, fiscal and financial policy, and the field of more specifically farm policy.

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The Canadian Federation of Agriculture is a non-partisan organization. It has among its membership

individuals of all political persuasions. It does not expouse any particular ideological viewpoint. It looks at and deals with all problems of economic and social policy in their own terms, arriving as accurately as possible and at any given time at a broad concensus of opinion as to the desirability of various policies, and judging between alternatives on their own merits. If we have any ideological biases other than the belief we all share in the democratic form of government they are these: belief in the rightness of democratic voluntary organization as a means of responsible participation by citizens in the affairs of the country; belief in the importance of adult education conceived in its broadest sense; and belief in self-help, especially through the co-operative form of business organization.

We make these observations because on a subject of such fundamental importance as that before this Commission we think it important to make our position in this respect clear.

Massive government involvement in economic affairs of the nation has always been a feature of Canadian life, in particular connections, most notably in the fields of transportation and power. Elements of economic planning have always been present, such as with the adoption of the homestead system of land settlement, and the use of the tariff. But the evidence builds up that we are entering an era when economic and social planning, in the sense of more systematic, institutionalized and continuing involvement of

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government in the direction, rationalization, control and functioning of our economic and social life, will be increasingly necessary and important. The evidences and causes of this are many, for example:

- in agriculture, nationally and internationally, more orderly and controlled methods of marketing, pricing and production are being increasingly recognized as necessary.

- in resource use generally, we have just had in Canada a major conference of which the key concepts are of rational planning for resource use in a context of coherent government policy, participation and investment.

- the very gorwth of economic understanding, and the development of improved techniques for influencing economic behaviour introduce elements of planning - a point that is central to this Commission's work.

- the demand that government accept as its responsibility certain goals in terms of prevention of unemployment, provision of equitable economic opportunity, economic growth, and productivity increasingly means government involvement in economic affairs - also a point central to the Commission's field of interest.

- the importance of social capital in our lives - an importance which is growing - means increasing pressure to co-ordinate and rationalize the total public-private investment picture.

- the increasingly large scale of industrial enterprise required for maximum efficiency in today's

world probably forecasts a need for more deliberate and positive policy, involving some degree of business-labour-government co-operation, in directing and planning the Canadian industrial structure in a national and international framework of policy.

The competitive market mechanism is the fundamental and single most important mechanism of economic regulation in our economy, whether in the capital market, in agriculture, or in other areas. The market mechanism operates of course in a framework of laws and institutions that determine and modify its workings in many respects. Also resort is had to many forms of more direct controls.

In the field of agriculture the fundamental importance of the market in pricing, production and distribution is recognized. In fact it would be true to say that in farm organization there is even less disposition than in the past to attempt altogether to discount or evade it. What it tells us of the nature of the economic position of agriculture, and what it contributes to the functioning of the agricultural economy, are better recognized than ever. But the other side of this is that the problem is no longer conceived as a choice between "the law of demand and supply " on the one hand and "Government control" on the other. The inadequacies of a "free market" system are recognized, and the problem becomes one of achieving a stable, growing, just and free farm economy by collective self-help, negotiation, agreement and controls plus proper measures of government service and regulation - all

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modifying the price system in a realistic way. Examples of this kind of development are: international commodity agreements, The Farm Credit Corporation and Farm Improvement Loans, marketing boards, agricultural prices supports, feed freight assistance.

We suspect that the same tendencies will hold in other industries, and in the field of banking and finance. It will be found that our basic concerns in this whole area are two: First, that policies followed shall contribute to the wealth, growth, stability and equity of the economy in the best possible way. Second, that means shall be provided for fostering the greatest possible information on, and public understanding of economic policy, trends and issues. We need institutions,policies and procedures that make the direction and planning of our economic affairs responsive to the public interest, with an effective degree of participation by responsible voluntary bodies in the consideration of economic and social policy.

3. AGRICULTURE IN OUR NATIONAL ECONOMY

An indication of agriculture's ever changing contribution to our national economy is revealed in the following tables on farm population, number and size of farms, value of farm capital, expenditures for implements, equipment, electricity, fertilizers and pesticides, exports of farm products, value of farm output, farm income and number of persons supported by one farm worker.

Only a few figures from the 1961 Census of

Agriculture were available when this part of our brief was under preparation.

Canada's population totalled 16.1 million on 1956. Of this total 5.4 million or 33.4 per cent lived in rural areas and 2.6 million or 16.4 per cent lived on farms in these rural areas. As is the case with other countries where industrialization is expanding rapidly the number of people living on farms is steadily declining. Only as far back as the middle 1940's about 25 per cent of our people lived on farms. The percentage of rural residents has no doubt declined further since 1956 and the exact information will soon be available.

Agricultural Land - The size of the farm land area has an influence of its own on the structure of the overall economy. Suffice it to note the importance of distance, the need to provide transportation facilities for the gathering of many production inputs and the marketing of the outputs.

Agriculture being an extensive enterprise, it uses more land than any other economic enterprise in Canada, including forestry. The total farm land area in 1956 covered about 173.9 million acres, including farm woodlots, covered about 156.7 million acres. Of the 173.9 million acres in farm land 100.3 million only were improved, 62.9 million produced crops, 24.6 million were in summerfallow and 101.1 million in pasture (Table I). There has been practically no change in the farm area in the past 15 years.

Number and Size of Farms - As a result of the increase in the acreage of individual farms, to take advantage of

opportunities inherent in technical innovations and in a larger size of business, the number of farms has declined steadily since 1931 in the Atlantic, Central and Prairie regions of Canada. In British Columbia, the decline was not so pronounced nor so steady. The number of occupied farms there declined from 1931 to 1941 but was even slightly higher in 1951 than in 1931; it declined again, however, from 1951 to 1956. For Canada as a whole the number of occupied farms dropped from 728,664 in 1931 to 575,015 in 1956 and to 480,903 in 1961.* (Table II).

The average size of farm for Canada as a whole has increased steadily since 1931, rising from 224 in 1931 to 302 acres per farm in 1956. (Table III).

<u>Farm Values</u> - Farm values more than doubled during the 1935-60 period. The capital invested in farm businesses rose from $4.5 billion in 1935 to about $11.6 billion in 1960, which represents an increase of 157 per cent. (Table IV). In 1935, $3.4 billion were invested in land and buildings, $0.5 billion in livestock and the same amount in farm machinery the corresponding figures for 1960 were $7.4 billion, $1.9 billion, and $2.2 billion. The average total investment per farm of course increased even more sharply on account of declining farm numbers, rising from $6,386 in 1935 to about $21,500 in 1960, an increase of 230 per cent.

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* For the 1961 Census of Agriculture the definition of a farm was changed. If the definition had been the same as in 1956 the number of farms in 1961 would be 521,634.

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* For the 1961 Census of Agriculture the definition of a farm was changed. If the definition had been the same as in 1956 the number of farms in 1961 would be 521,674.

Expenditures - Capital expenditures, for construction, machinery and equipment and repair expenditures, also for construction, machinery and equipment, rose from $71.5 million in 1935 to $709.1 million in 1961. (Table V).

The above figures on expenditures for machinery and equipment include money spent for the purchase and repair of old or used as well as new equipment and machinery. The values given, consequently, are retail and not wholesale values.

Data on sales of new implements and machinery, at wholesale values, however, may be better indicators of additions to the production capital of our farms. These sales rose from only about $19.3 million in 1936 to $52.1 million in 1941, $235.6 million in 1951 and reached a peak of $250.3 million in 1952. They declined after that year but rose to $217.5 million in 1960. (Table VI).

Sales of other farm supplies have been reaching new high levels in recent years. Sales of fertilizers, for example, rose from 212,479 tons in 1935 to 575,107 tons in 1945, to 1,077,412 tons in 1961, nearly double the amount of fertilizers sold in 1945. (Table VII).

Sales of pesticides rose from only $5.4 million in 1947 to $12.6 million in 1951. They were valued at about $26 million in 1961. (Table VIII).

Farmers are also heavy users of electrical power. Statistics on farm service furnished by central electric stations indicate that the number of farm customers and the number of kilowatt-hours supplied to them has been increasing steadily since 1944. From

[illegible] - Capital expenditures. For construction, machinery and equipment and repair expenditures, also for construction, machinery and equipment, rose from $7[illegible].5 million in 19[illegible] to $[illegible]9.1 million in 1961. (Table V)

The above figures on expenditures for machinery and equipment include money spent for the purchase and repair of old or used as well as new equipment and machinery. The values given, consequently, are retail and not wholesale values.

Data on sales of new implements and machinery, at wholesale values, however, may be better indicators of additions to the production capital of our farms. These sales rose from only about $1[illegible].[illegible] million in 19[illegible] to $[illegible]2.1 million in 1941, $[illegible]5.6 million in 1951 and reached a peak of $250.3 million in 1952. They declined after that year but rose to $217.5 million in 1960. (Table VI).

Sales of other farm supplies have been reaching new high levels in recent years. Sales of fertilizers, for example, rose from 2[illegible]2,[illegible]79 tons in 19[illegible] to [illegible] tons in 1945, to 1,077,412 tons in 19[illegible], nearly double the amount of fertilizers sold in 19[illegible]5. (Table VII).

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116,609 in 1944 the number of customers rose to 484,633 in 1960; total kilowatt-hours rose from 147 million to 2,106 million and the average number of kilowatt-hours per customer from 1,260 to 4,345, or almost 3 and a half times as much. (Table IX).

Table X summarizes statistics on farm operating expenses and depreciation statistics for the 1950 to 1960 period. There were variations in the size of the various types of expenses from year to year, but, on the whole, they followed an upward trend from $1,332 million in 1950 to $1,888 million in 1960.

Agricultural Labor Force - Canada's agricultural labor force increased steadily from 1,216,000 in 1931 to 1,379,000 in 1939, then declined to 1,118,000 in 1943, rose until 1946, and has followed a steadily downward trend ever since to drop to 675,000 in 1960. As a percentage of the total Canadian civilian labor force it has declined almost consistently, from 36.4 per cent in 1933 to only 11. 3 per cent in 1960. (Table XI).

"The decline in the farm labor force should not be rigidly interpreted as a decline in agriculture's contribution to the national economy. In countries with a growing economy, and Canada is one of these countries, the farm population acts as a reservoir that supplies an increasingly large number of professional, industrial, commercial, skilled and other workers to other segments of the economy. Those remaining in agriculture benefit from the expansion in the remainder of the economy because of the increasingly expanding market for farm products resulting from the increase in total and non-farm

population. Agriculture does not then enter into a debilitating stage, especially when it improves its ability to feed a larger number of people. Canadian farmers have amply demonstrated that ability." (Quotation from an article in the Economic Annalist of April 1961 by C. Varkaris and G.P. Boucher of the Economics Division of the Canada Department of Agriculture).

Increases in production have led to an increase in gross income and they have also led to the Canadian farmer's ability to feed more people in Canada and to export more abroad. Table XII shows the increasing value of farm production and the rising value of output per farm worker. The number of persons supported by one farm worker rose from 10 in 1940 to 27.7 in 1960.

Our agriculture accounts for a considerable part of our external trade. In the 1930-58 period, agricultural exports as a percentage of total produce exports have ranged from a high point of 45.3 per cent in 1932 to a low point of 17.3 per cent in 1960. (Table XIII).

<u>Net Farm Income</u> - Statistically, net farm income is a difficult thing to discuss. The general picture of course is clear. This is that, even ignoring the very good years (relatively) of 1950 and 1951, aggregate net farm income today is running at lower levels than those of 6, 12 or 15 years ago. Also there are very sharp year to year fluctuations in the total of net and cash income, caused principally by variations in western crops. On a per farm basis the picture is not quite so depressed looking, on account of the drastic decline in the number of farmers, but even on this basis the

farmer's position has declined, both absolutely and relatively, since let us say 1949. Tables XIV andXV (a) and (b) give some data on a total, per farm, and regional basis. The cause of this situation has of course been the rising productivity of agriculture that has continuously kept prices pressed down as farmers struggled to make an economic success of their business by adopting new techniques, expanding production and lowering the use of labor. Some have kept ahead of the game and many have dropped behind - either through leaving agriculture, failing to attract their children to agriculture on their retirement, or continuing in agriculture on a progressively more unsatisfactory basis economically. It is true of course that many adjustments have been made in the form of off-farm employment for the operator or members of his family. A very significant proportion of farm family income, perhaps 30 to 40 per cent, comes from non-farm sources. But on a family income unquestionably the income picture for urban people also would be very different from that which one would draw from looking at wage and salary levels for individual members of the labor force. Such data are not available for accurate enalysis.

While this has been going on farm production has shown of course a long-term upward trend, the movement from year to year showing sharp fluctuations, mostly as a result of western grain yields, but also reflecting cyclical patterns in hog and poultry production. (Table XII).

Output per person employed in agriculture has

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Table XII.

Output per person employed in agriculture [illegible]

risen steadily, more than doubling since the end of World War II.

Agriculture's share of the "gross domestic product at factor cost", that is its share in the form of farm net income plus depreciation charges, has been declining almost steadily from year to year. From 18.1 per cent in 1926 it dropped to 11.6 per cent in 1930, fluctuated from a low point of 8.0 per cent in 1931 to high points of 12.5 per cent in the 1931-53 period; it never exceeded 7.5 per cent in subsequent years and even reached low points of 5.3 per cent in 1959 and 5.5 per cent in 1960. (Table XVI).

Cash Income from the Sale of Farm Products - Table XVII on 1961 farm cash income gives some idea of the importance of the kinds of agricultural commodities produced in the different provinces of Canada. Some observations on the details of this table follow.

It will be observed that for Prince Edward Island potatoes and dairy products combined contributed close to half the total cash farm income, with potatoes slightly ahead. Cash income from livestock products including dairy and poultry products was more than double the income from all crop production, including potatoes.

In Nova Scotia income from fruits (apples) was by far the most important crop, contributing 7 per cent of cash income. Income from dairy products accounted for 28 per cent of cash income and eggs and poultry were important products contributing together a further 26 per cent. Other livestock products account for most of the balance.

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Agriculture's share of the 'gross domestic product at factor cost', that is its share in the [illegible] of farm net income plus depreciation charges, has been declining almost steadily from year to year. From 1[illegible] per cent in 1926 it dropped to 11.0 per cent in 1950. It ranged from a low point of 6.0 per cent in 193[illegible], to high points of 12.5 per cent in the 1927-29 period. It never exceeded 7.[illegible] per cent in subsequent years and even reached low points of 4.7 per cent in 1958 and 5.0 per cent in 1960 (Table [illegible]).

Cash Income from the Sale of Farm Products - Table [illegible] on 1961 farm cash income gives some idea of the importance of the kinds of agricultural commodities produced in the different provinces of Canada. Some observations on the features of this table follow.

[illegible] 1961 [illegible] [illegible] that [illegible] [illegible] livestock and dairy products contributed [illegible] close to half the total cash farm income, with [illegible] slightly ahead. Cash income from livestock products [illegible] [illegible] [illegible] accounts [illegible] more than double the income [illegible] [illegible] occupation, including potatoes.

In [illegible] cash income [illegible] ([illegible]) [illegible] by the [illegible] important [illegible] [illegible] [illegible] per cent of [illegible]. Income from dairy products accounted for [illegible] per cent of such income and poultry and [illegible] important [illegible] [illegible] together [illegible] per cent. Other [illegible] [illegible] amount for [illegible] [illegible].

In New Brunswick, potatoes account for 15 per cent of cash income and dairy products 29 per cent. Other livestock account for the rest with eggs and poultry having a much less important place than in Nova Scotia.

The highest cash income from crops in Quebec was from vegetables. Dairy products however returned 40 per cent of the total cash income, much the highest proportion in Canada. Crops produced less than 12 per cent of the total cash farm income in Quebec.

In Ontario the cash income from tobacco was larger than that from other crops, and in total crops accounted for a full 28 per cent of cash income. For livestock and livestock products the order of importance was cattle and calves, dairy products, hogs, eggs and poultry. Ontario is the most diversified agriculturally of the provinces.

Wheat returned more cash income than any other crops in Manitoba but income from livestock and livestock products exceeded that from wheat and other crops.

In Saskatchewan and Alberta wheat was the highest income producer. In Saskatchewan income from wheat and other crops was more than double the income from livestock and livestock products but in Alberta only about 40 per cent of the cash income was from crops. In all 3 prairie provinces cattle far exceed any other livestock products in volume of cash returns.

In British Columbia fruits returned more income than other crops but the cash income from dairy products was nearly double that from fruits. The cash returns from livestock and livestock products represented nearly

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In Ontario the cash income from tobacco was larger than that from other crops, and in total crops accounted for a full 25 per cent of cash income. For livestock and livestock products the order of importance was cattle and calves, dairy products, hogs, eggs and poultry. Ontario is the most diversified agriculturally of the provinces.

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70 per cent of the total.

When the cash farm income of the Canadian farmers in the various provinces is viewed on the national level, the commodities providing cash returns of more than one hundred million dollars in 1961 out of a total cash income of $3 billion; cattle and calves $632.5 million; wheat (initial), interim and final payments) $607.2 million; dairy products $534 million; hogs $322 million; poultry and eggs $284 million, and tobacco $103.1 million. In total, income from these commodities represent almost 80 per cent of the cash returns from all farm commodities. It is noteworthy that as a crop for cash sale, tobacco is not too different in importance in recent years from oats and barley combined. Two points should be noted here, of course. First, the bulk of the oats produced are fed on the farms where they are produced. Second, the ratio of farm expense to value of output is very high with tobacco.

## 4. FARM CREDIT AND CAPITAL INVESTMENT IN AGRICULTURE

Farming in Canada is a business as well as a home for a farm family. To obtain a satisfactory living for the family there must be sufficient land, buildings including a farm house, and farm machinery and equipment to utilize the family labour efficiently.

Most farms must also be stocked with the proper number and kinds of livestock. There must also be sufficient funds to carry on the farming operations. These items represent the capital needed to engage in

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farming.

For every farm family there must also be capital to furnish the house and pay the costs involved in family living.

When considered as individual economic units, farms in Canada differ widely in size, in the amount and kinds of assets they use, the nature of their operations, the kinds of crops, livestock and livestock products they produce, the income of the operators and in respect to other economic characteristics.

Farms vary greatly in respect to their financing and in the sources from which they draw their capital. Farms also vary greatly in the extent of their relative dependence on short and long-term credit and in the degree to which each type of credit is obtained from federal and provincial governments, from private institutions and from individuals.

To most farmers credit provides an important means for utilizing the production resources of land, labour and equipment. To the extent that credit regulates the accumulation of capital it controls to a major extent the farmers' economic activity, his production output and his income.

<u>The Need for Farm Credit Policy</u> - Credit must be available in sufficient volume if farmers are to be efficient in their production activities. Apart from management, the reason for differences in farm productivity is the difference in production resources. Within the limitations imposed by the inherent quality of the land, availability of credit is the principle factor determining

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productivity.

Availability of sufficient credit through soundly conceived policies and institutions can have an effective influence in maintaining the family farm, the most desirable form of farm enterprise. It can also encourage sound farm practides and be of real help to farmers in introducing improvements in their techniques of production and marketing which will raise their levels of living.

Thus, good credit policy can not only facilitate the adoption of improved technology in agriculture, but can also do much to ensure that the opportunity to progress is made available to all farmers in a way that is fair and equitable, and that will contribute to the family pattern of farming. This pattern is characterized by the kind of farm enterprise in which the ownership, management and much of the labour are contributed by the farmer and his family.

Credit can be of vital assistance to farmers when they encounter conditions which may be called disasters, such as serious damage from storms, floods, drought and fire.

Inadequate credit is one of the main factors - if not the main factor - which prevents farmers from expanding their farm operations to economic proportions.

The effectiveness of credit may in some cases be limited by the management ability of the farmer and research and education directed to increase the farmers knowledge and skills are vital to the successful use of farm credit.

Many of our low income farmers lack adequate credit. This results in much under-employment and many uneconomic enterprises. Government loan programs should be adequate to meet the needs of such farmers. While some of these farmers have poor land and inadequate management ability, yet more often the reason for unprofitable farming is the smallness of their farm enterprises, and the inadequacy of the capital resources necessary to enable them to increase the size of their farm business, and adopt the advancing technology which is being used by the more successful farm operators.

Agriculture has been experiencing unprecedented changes in the technology and economics of production and marketing in the past two decades. These changes will be continued at a rapid pace. Capital and credit in agriculture represent a most impotant feature of the substantial adjustments which are today facing agriculture in Canada.

Changes in labour productivity of agriculture reflect to a large degree the substitution of capital for labour and the adoption of technology which results in higher yield per acre and per animal. No other industry has had the increase in productivity per hour of labour as has agriculture. The amount of capital per farm worker has increased in a striking manner. These changes in farming have been associated with a cost-price squeeze and relatively low levels of farm income.

Pattern of Investment in Agriculture

The dominant shifts in the farm capital structure are the increasing importance of implements, machinery

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Pattern of Investment in Agriculture

The dominant shifts in the farm capital structure are the increasing importance of implements, machinery

and livestock relative to land and buildings. Capital per farm worker has increased rapidly, farm labour has declined steadily and output of farm products has increased with total population growth and technological innovations. Great strides have been made in farm output per farm worker and per unit of capital. Increased output of farm products has been the result of an expansion of knowledge and adoption of improved technology of production and greater availability of supplies for the production process. There has been a rapid decline in the number of farm operators and in the use of horses as a source of power. In the past 12 years the number of farm operators has been reduced from 663,000 in 1949 to 432,000 in 1961 or an average of 19,200 a year. The number of horses on farms has decreased from 1,738,000 in 1949 to 516,000 in 1961.

The productivity of the farmer's labour is today dependent to a major extent on the availability of capital and his ability to manage these larger investments of capital. The kinds of capital may be classified in four categories. First, real estate capital which represents the land and permanent improvements such as the farm house and other buildings, fences, irrigation, drainage and terracing. This kind of capital represents the largest part of the total capital investment required by farmers.

The second kind of capital is that represented by machinery, farm and household equipment, and foundation livestock.

The third kind of capital is generally referred

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The third kind of capital is generally [illegible]

to as operating capital used to purchase livestock, fertilizers, pesticides, lime, feed and seed and to pay for hired labour, family living and other related expenditures.

Capital for farmers' co-operatives is the fourth kind of capital needed by farmers in this case to be invested by them collectively. Farmers find it to their advantage financially to market their products and purchase their supplies and services wholly or partly through co-operative organizations.

Sources of Capital in Agriculture

Availability of capital of these kinds at reasonable interest rates is essential if farmers are to operate their farms efficiently and have some income over and above their costs of production. The primary sources of capital for farmers are: (1) inheritance, marriage and gifts; (2) purchase of capital with personal savings; (3) borrowing capital goods (renting) and (4) borrowing purchasing power for capital goods (credit). The transfer of farms from father to son is the basic and most common form of transfer, though of course not by any means the only one.

Large amounts of capital are required for efficiently operated farms. Family farms, which make up more than 90 per cent of all Canadian farms, frequently require an investment of $50,000 or more. Because of this large investment it is becoming increasingly difficult for a farmer to save the amount required to acquire ownership of his farm during his productive years and at the same time provide his family with a reasonable level

of living.

Savings is a most important source of farm capital formation. This is possible when the individual farmer has enough income over and above his needs for farm operation. A low net income, which most farmers are now experiencing, leaves little margin, after depreciation and consumption needs are met, for the volume of savings needed. The struggle to retain savings for investment out of a low or modest income, can, even when attempted, be an unreasonable hardship for the family. Just as profitable farming demands more capital, so the farm family is expecting a higher standard of living as the level of living in Canada rises.

As about 77 per cent of the farmers in Canada own their farms renting of land is not characteristic of Canadian farming, although it has a useful and valid place, should it become characteristic.

Capital in Canadian agriculture exceeds $11 billion and although savings and inheritance are important, yet credit must provide a substantial and increasing part. The technological advances in farming and the desire of farmers for higher levels of income have focused attention on the role of farm credit. The Federal government and several provincial governments have farm credit programs. Farm credit is also obtained from many other sources.

It has been estimated that on December 31, 1960, short-term medium-term and long-term loans to farmers by the Federal and provincial governments, mortgage and loan companies, the commercial banks and credit

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It has been estimated that on December 31, 19[illegible], about [illegible] long-term and intermediate loans to farmers by the federal and provincial governments, [illegible] and loan companies, the commercial banks and credit

unions amounted to almost $884 million.

Estimates of Outstanding Loans to Farmers Classified by Length of Period, December 31, 1960. (Excluding loans by private individuals and merchants.)

| | |
|---|---|
| 1. Short-term (up to 3 years) | |
| Commercial banks a/ | $241,500,000 |
| Credit Unions b/ | 65,460,470 |
| Total short-term | $306,960,470 |
| 2. Medium-term (up to 10 years) | |
| Commercial banks a/ | $177,536,410 |
| 3. Long-term (up to 30 years) | |
| Provincial Governments c/ | $147,204,356 |
| Federal Government d/ | 227,858,207 |
| Mortgage and Loan Companies e/ | 24,000,000 |
| Total long-term | $399,062,563 |
| Total of Above Outstanding Loans | $883,559,443 |

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a/ Estimated from annual reports of the commercial banks and of the Farm Improvement Loans Division, Dept. of Finance.

b/ Estimated from reports on farm credit obtained from Credit Union officials in six provinces with estimates for remaining Provinces made on the basis of a percentage of volume of credit business.

c/ Estimated from annual reports of the various Provincial Government farm credit agencies.

d/ Estimated from annual reports of Federal Government farm credit agencies.

e/ Estimated from information received from Dominion Mortgage and Investment Association.

In the report of the Royal Commission on Canada's Economic Prospects it is stated that in 1951 about 45 per

cent of the 176,300 farm mortgages and agreements for sale were held b individuals, about 37 per cent by governments, and about 17 per cent by corporations. More recent studies indicate that the number of long-term loans may be about the same as they were in 1951 and that, of the value of these, mortgages and agreements for sale held by individuals, (which would include those held by relatives of the farm operators) still represent in the neighbourhood of 40 to 45 per cent of the total. Government agencies hold about 45 to 50 per cent, corporations such as insurance and trust companies about 3 to 5 per cent, banks 2 to 3 per cent and other organizations such as credit unions 2 to 3 per cent. The total of these long-term loans is about $650 to $750 million.

Other indebtedness of farmers in short-term and medium-term credits is in the vicinity of $500 to $600 million. There were about 178,000 federal farm improvement loans on December 31, 1961. The value of these loans was about $194 million. Other bank loans are about the same in value. The next most important source of short-term credit, and in some cases intermediate credit are credit unions with about 12 per cent. Insurance and other corporations, individual farmers, persons other than farmers, the provincial governments, stores and dealers in feed, machinery, fertilizers and other commodities make up the balance.

Sources of credit for farmers from the Federal Government include:

(1) The Farm Credit Corporation;

(2) The Veterans' Land Act;

[illegible]

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[illegible]

[illegible]

(2) The Veterans' Land Act;

(3) The Farm Improvement Loans Act.

Farm Credit Corporation: It was in 1927 that the federal government entered the long-term farm credit field with the establishment of the Canadian Farm Loan Board. In 1959 a new federal Act was passed which provided for the establishment of the Farm Credit Corporation. Loans to farmers increased very greatly in number and in value when the Farm Credit Corporation was created. The number of loans made increased from 3,702 (valued at $21.3 million) in 1957-58 to 4,885 (valued at $68.6 million) in 1961-62. The average size of loan more than doubled, from $5,748 to $11,652 over the same period. The purposes for which the loans were granted and data in numbers, amounts and provincial distributions are set forth in Table XVIII.

This most significant expansion in federal farm loans is evidence of the increasing needs of Canadian farmers for more capital if they are to become more efficient in their production of farm products.

The new Farm Credit Act provides for loans at 5 per cent, to a maximum amount of $27,500, for periods of up to 35 years (few loans are made for this length of term.) Loans may be obtained up to 75 per cent of the value of the farmers land and buildings, under the regular and most commonly used program. Under a program of supervised credit, which requires prior approval of a farm plan and subsequent supervisory attention, loans may be obtained for up to 75 per cent the value of land, buildings, livestock and marketing, all of which may be taken as security.

(5) The Farm Improvement Loans Act.

It was in 1927 that the federal government entered the long-term farm credit field with the establishment of the Canadian Farm Loan Board. In 1959 a new federal Act was passed which provided for the establishment of the Farm Credit Corporation. Loans to farmers increased very greatly in number and in value when the Farm Credit Corporation was created. The number of loans made increased from 3,702 (valued at $21.3 million) in 1957-58 to 4,395 (valued at $68.6 million) in 1961-62. The average size of loan more than doubled, from $5,748 to $11,652 over the same period. The purposes for which the loans were granted and data in numbers, amounts and provincial distributions are set forth in Table XVIII.

This most significant expansion in federal farm loans is evidence of the increasing needs of Canadian farmers for more capital if they are to become more efficient in their production of farm products.

The new Farm Credit Act provides for loans at 5 per cent, to a maximum amount of $27,500, for periods of up to 35 years (few loans are made for this length of term.) Loans may be obtained up to 75 per cent of the value of the farmers land and buildings, under the regular and most commonly used program. Under a program of supervised credit, which requires prior approval of a farm plan and subsequent supervisory attention, loans may be obtained for up to 75 per cent the value of land, buildings, livestock and machinery, all of which must be taken as security.

<u>Veterans' Land Act</u> - This Act is designed to assist veterans of the second world war and the special forces in acquiring and operating land holdings. The maximum loan is $20,000 for land and chattels. A feature of this Act which has been widely commended is that they are all supervised loans, which gives reasonable assurance of:

(1) The best use and greatest safety of the money loaned.

(2) That the credit needs of competent operators are amply met.

(3) That a planned program is being followed which will be a success and result in progressive reduction of debt.

(4) A farm program directed more in line with future market requirements.

These are brought about by the credit agency by:

(1) Instilling in the minds of progressive farmers an appreciation of the role of credit in putting the farm unit in a position to operate at a profit.

(2) Helping to develop ideas and the farmer's own plan as to how this can best be done.

(3) Helping the farmers with the details.

Under the Veterans' Land Act 288 loans for full-time farming were made in 1961-62, and cumulatively 29,484 loans have been made. The cumulative total of funds loaned has been almost $190 million, nearly $50 million being for purchase of land and permanent improvements.

Loans are made for a maximum of seven years, and

of the $190 million loaned $58 million is now outstanding. Further statistical information may be found in Tables XXIII AND XXIV.

Of particular interest since the Act went into effect in 1942 is how the rising capital requirements in farming have resulted in four successive increases in the maximum assistance available to veterans for farming under the Act: from an original $4800 to $600 to $10,000 in 1954 and then to $20,000 in 1959.

The basic principle of operation for full-time farmers has been that farms established should be economic units. However, recent amendments to the Act have modified this principle to the extent that veterans whose farms have become uneconomic, who cannot really for reasons of age or otherwise be expected to get onto a fully economic basis, but who nevertheless are making out in sound fashion and could usefully employ some more capital, may be able to obtain further loans.

Provincial Credit Legislation - Farmers in eight of the ten provinces - Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Manitoba, Saskatchewan and Alberta - may obtain credit from provincial farm credit agencies. Details of the Acts under which this credit may be obtained are presented in Appendix B. The rate of interest on these provincial loans, the maximum size of the loan, purposes for which a loan may be obtained and other factors varies from province to province. As of December 31, 1960 long-term credit loans to farmers by eight provincial agencies are presented below. The Ontario program was suspended in 1959.

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| | |
|---|---|
| British Columbia | $ 765,618* |
| Alberta | 6,421,801 a/ |
| Saskatchewan | 1,999,837 |
| Manitoba | 4,140,000 |
| Ontario | 20,216,612 b/ |
| Quebec | 107,700,000 |
| New Brunswick | 1,397,727 |
| Nova Scotia | 4,562,761 |
| Prince Edward Island | - c/ |
| Newfoundland | - c/ |
| | $ 147,204,356 d/ |

a/ Includes $449,738 credit outstanding for years on advances for seed and feed several years back.

b/ Estimated from previous figures. Loans ended with 1959 because Ontario suspended their Act.

c/ Not available.

d/ Some provinces reported loans outstanding as of March 31, 1961. The figure had to be estimated as of December 31, 1960, in these cases.

Farm Improvement Loans - In 1944 the federal government passed the Federal Farm Improvement Act. Loans under this Act are intended to provide intermediate and short-term credit to farmers for the improvement and development of their farms and to raise their levels of living.

The Act provides for guarantees to the commercial banks so that they may be encouraged to expand their lending for intermediate term credit needs. The guarantee given by the government is against loss up to ten per cent of

* Loans under the Land Clearing Act.

the aggregate principal amount of loans made by each individual bank. In operation losses have been relatively low at only a fraction of one per cent of total loans granted. Tables XIX to XXII give some recent and historical data on this program, the major use of which is for the purchase of farm machinery.

In 1959 the Act was amended to increase the loan limits for any individual farm operator from $5,000 to $7,500. The Act provides for varying repayment periods up to ten years depending on the size of the loan and its use.

5. SIGNIFICANT CHARACTERISTICS OF FARMING FOR CREDIT POLICY

(a) Because the forces of economic change have been for some time forcing a decline in the farm labour force, and productivity in agriculture has been running ahead of the increase in effective demand, overall returns in agriculture have been low. The farmer does not make a lot of money on his investment - on the whole he makes a very low return. Yet this return is an overall return to land, labour, capital and management, and the different parts are hard to sort out. It is quite certain however that rapid technological advance make adequate capital investment and efficient management key factors for successful farming. In other words, the return to investment of new capital remains high, while the overall chronic downward pressure on returns continues. This continuing, sharp competition between farmers for a limited market that the resources of land and manpower available are more than able to supply is the dilemma

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that agriculture faces. It is the general thesis of this submission that the public interest is served by increasing productivity in agriculture, and the task of farm credit policy is not to restrict that increase so much as to fairly and effectively provide adequate opportunities to farmers to invest and raise their productivity, while at the same time creating a healthy economy into which farm people can move to non-farm employment where this is their choice or necessity.

(b) Re-investment of earnings in the form of accumulation of livestock inventories and purchases of machinery, buildings and improvement out of current income are an important feature of the farm picture.

(c) The family nature of the business makes the process of transfer and financing of land, buildings, livestock and machinery at less than arms length complex, and influenced by a multitude of considerations and arrangements outside the normal market process of buying and selling.

(d) The historic vulnerability of the farmer to risks of crops and markets has resulted in widespread distrust of indebtedness - an attitude that in some periods may be sound and valuable, but that in a period of rapid technological change and the use of new machines and equipment in place of labour can be disastrous for the individual farmer who finds himeslf slipping behind in the intense inter-farmer competition that is the outstanding and distressing feature of the agricultural economy. The reason this competition is distressing is because farming is a business that for the person

engaged in it has important social and family values, as well as being his productive occupation, and yet the implacable forces of the economy have been to contract the labour force engaged in it by the economic attrition of farmer competing with farmer. The avoidance of such a situation almost always comes to be a goal of any organized labour or business group, in one way or another, and most have avoided it with some success. The farmer has had little success in this direction, although some amelioration has been possible.

(e) The necessity for the farm to be completely refinanced in every generation - for the farmer, that is, to not only meet the cost of his capital but to acquire ownership under conditions where returns are not really sufficient even to meet living expenses and the need for new capital - is a feature of the farm industry often commented upon. For many farmers, it is suggested, it becomes a hopeless and self-defeating effort to accumulate large amounts of equity in land and buildings, and especially in land, in the short periods of time that many try to do so. While this process is of course a form of saving for retirement, it can result in practice in preventing the farmer from acquiring the steadily increasing amounts of capital in buildings, machinery and livestock that is needed for technologically up-to-date farming. Very long term mortgages, and extension of the practice of leasing under laws and agreements that provide security of tenure have been suggested as ways around this difficulty. Of course the farmer does need, in some form, to accumulate an estate for retirement, but

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the timing of such saving, and the degree to which and the way in which the attempt is made may actually frustrate success in farming by preventing necessary investment of new capital.

(f) The effects on the working of the capital market for agriculture of what is often known as "vertical integration" might well be looked at. Here we have the extension of considerable credit in conjunction with contractual arrangements regarding the production and marketing of the product itself. The credit is advanced to the producer in the form of supplies of feed, feeder stock, and often capital for a certain amount of investment in buildings and machinery. The creditor may be a supplier of feed or of feeder stock, or he may be the company purchasing the product from the farmer - or all three at once. The farmer enters into two, three or four party contracts to produce so much produce and market it under specified conditions. Often incidental supervision, and provision of expert specialist services by the companies party to the contract, are involved.

Under such contractual integration the farmer, as a purchaser of credit, is purchasing it as part of a package deal that fails to identify to him the cost of such credit. Our point here being not that the charges should be disclosed, but that in fact they are often unidentifiable, as such. The lender is interested in extending credit to develop a market for feed or baby chicks, or a source of supply of produce for processing and marketing. There are risks associated with these

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contracts for all parties to them, but the farmer tends very strongly to become the major, often the only, risk-bearer. Overextension of the use of credit is a way that is economically wasteful and very harmful to many farmers is quite possible and even likely. The pace and severity of inter-farm competition is stepped up sharply and at the same time, many feel, there are real losses to the farmer in terms of independence of decision-making and security of employment in the particular branch of farm business concerned. That there are also economic gains in contracts attendant on the rapid adoption of improved feeding and other production methods, systematic integration of production with market and processor needs, and quality control, is undeniable.

All this opens up major questions of farm policy. In general, the view of the Canadian Federation of Agriculture is that through co-operatives and marketing boards some control of marketing and production designed to give stability and security to the industry should be introduced. From the Commission's point of view, the advantages of a reduction of the degree of risk and insecurity, and modification (but not elimination) of the severity of inter-farm competition, should be: less wasteful use of capital, and more careful and effective entry by the farmer into the capital market.

(g) Although as an individual a heavy user of capital, with a high level of investment, the farmer is a small borrower by corporate standards, and not an investment specialist. Many, facing the problem of transition to a highly mechanized and scientific type of

farming, have had little experience with making difficult investment and management decisions. Every farmer is faced as an individual with enormous problems of decision-making, heavy pressures to invest in order to compete, and very incomplete knowledge of the likely future possibilities of repayment. The knowledge of regular commercial sources of funds for agricultural needs can also be low. All this makes for high cost credit in the absnece of offsetting measures of public policy, of which, both in the form of lending institutions, and in the field of extension and management and assistance, are fortunately available.

The case is therefore very strong for public and co-operative credit institutions to play a major role as lenders as far as the farmer is concerned, and/ or for public policy to facilitate useful flows of credit at reasonable rates through guarantees. This is what has happened in the development of Federal and provincial long-term farm credit agencies, and the Farm Improvement Loan policy.

## 6. THE GOALS OF FARM POLICY

The farmer has become increasingly aware of the economic dilemma he faces - that of competing with himself in an industry with a rapid rate of technological advance and with a declining labour force, under conditions of relatively low income. He becomes at the same time more acutely aware that most proposals for improving the efficiency of agriculture, and helping the farmer who is having a difficult time, have a strong

tendency to increase the severity of such inter-farm competition. While for the most part farmers do not want to see an end to technological progress in agriculture, or the development of onerous and rigid regulation and control, they would like to see:

1. The process of adjustment made more orderly and stable.
2. Reasonable compensation made through public policy for the often considerable loss which the individual farmer has suffered, through no fault of his own, as a result of the processes of economic change and adjustment. The speed of the adjustment in some cases has been reduced by public policy. The legitimate need for the smaller farmer is for some reasonable security of livelihood on the farm, or for assistance in making necessary adjustments, recognized. In the Federal field, such policies as price supports, prairie farm drought assistance, the services of the Farm Credit Corporation, the new Agricultural Rehabilitation and Development Act, crop insurance, enabling marketing board legislation, and the Farm Improvement Loans Act are all directed in whole or in part toward achieving one or all of these objectives.

7. NEW FARM CREDIT POLICY NEEDS

What more, in fields relevant to the work of

this Commission, needs to be done?

The Canadian Federation of Agriculture has the following suggestions:

1. <u>Emergency and Disaster Loans</u> - (The following is reproduced verbatim from submissions made to government on previous occasions) .

"The Canadian Federation of Agriculture would like to propose, at this time, the passage of one new piece of farm legislation. It is one which we feel is of very considerable importance, yet properly administered should involve only relatively minor costs to the national treasury. We refer to legislation to provide interest-free farm credit to farmers who have suffered disastrous losses from natural causes such as flood, infestation in very severe form, frosts and hurricane winds. The request for such legislation has been part of the policy of the Canadian Federation of Agriculture since 1957, but the development of other basic farm legislation in price stabilization, farm credit, crop insurance and rural development has understandably taken the forefront of attention. We think the time has come for legislation of this kind to be passed.

When disaster strikes a large area with extreme severity, a national emergency is often recognized to have occurred, and aid is forthcoming from Federal, provincial and private sources. That such help is given is of course a good and necessary thing. However, farmers may suffer extremely serious economic setbacks as a result of natural causes which are of such a nature, or

so restricted in the area affected, that such national emergency relief and rehabilitation programs are not established. Emergency or disaster loans which can be made available on the basis of individual need, and which will meet the problems caused by even quite localized disasters and emergencies are, therefore, very definitely needed in addition to, but not as a substitute for, major relief programs.

This kind of policy, of course, must be designed to meet real and legitimate need and hardship, and must be protected against abuse."

In Appendix C some specific suggestions as to the kind of legislation needed are set out. We do strongly commend this matter to your consideration.

2. <u>A very special credit service related to needs which emerge in programs of rural development</u> - This service should be provided by the Farm Credit Corporation. Where you have the development of planned public policy for rural areas on a broad base, there should be provision for extremely flexible and if necessary generous extension of credit, provided in the context of the development plan and where required on a group as well as individual basis. The co-operative liaison between the authorities involved that is required for such a program has already begun at Federal level by the appointment of the Director of ARDA, to the Board of the Farm Credit Corporation. Amendments to the Farm Credit Act are needed to broaden the potential scope of the Farm Credit Corporation's activities. In this connection the activities of the

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U.S. Farmers' Home Administration, an extremely broad and flexible program of supervised farm credit, are worth examination, and some material in this connection is provided in Appendix D.

3. <u>Initial farm financing and financing development of the farm</u>- One of the problems of farm financing which has already been noted but which deserves special attention from the point of view of its policy implications is this: every farmer going into the business has two needs. The first is for the initial financing to go into business, that is to acquire his initial investment of land, buildings and machinery. The second for new capital for development and improvement of his business as he goes along.

If we were in a time of little or no technolotical change, the first requirement might be nearly the only one for many farmers. Under modern conditions, however, success in the farming enterprise almost inevitably means a growing need for more capital over the years, in line with the opportunities and pressures of changing technology. No farm credit policy can be fully successful unless it recognizes and meets both these needs of the farmer for capital.

The problem is that the farmer may be badly handicapped if in the effort to borrow, and then to pay off, the necessary initial borrowing he finds it difficult or impossible also to carry on an adequate program of new investments as the years go by. An aspect of this problem is that the retiring farmer, whether the father of the new farmer or not, requires an

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income from his equity in the farm in his years of retirement, and there are difficulties too created by the fact that in cases of inheritance several family members, only one of whom will actually work the farm, have a legitimate equity in the family estate.

There is a need for searching thought and enquiry into the kind of policies which will best meet this problem. In the paragraphs to follow we are putting forward a tentative proposal which we frankly cannot say represents a firm policy request. It does represent one idea, however, about how this important problem might be met, and we put it forward as such for study and comment. Our suggestion is that a special program for the incorporation and issuance of securities on family farms be considered. Our thought is that it might work like this:

- A man wishing to purchase a farm from his father or from anyone else could apply for incorporation of that farm under the terms of special legislation adapted to the purpose. The purpose of incorporation would be the issuance of long-term, interest-bearing securities which would, initially at least, be purchased by a special government agency. The new farmer would then have no payments to make except interest on this initial investment. These securities would have a maturity calculated for approximately the farmer's age of retirement, depending on the nature of the assets.

- In this program it might be feasible to make the agency self-contained and self-supporting, except for underwriting by the government, by having it

issue its own securities to cover the cost of the individual farm securities. The interest charges on these securities would then be related, in a long-term way to market prices. The agency might also sell annuities to the retiring farmer who is disposing of the land, thus reducing the flow of capital out of agriculture and the need to attract new funds to it.

- On maturity the securities could be re-issued in the same amount, or securities issued for the increased value of the farm. The point is that policies of the agency should be designed to ensure security and continuity of family farm tenure.

- Incorporation and issuance of these securities should not rule out other borrowing from the Farm Credit Corporation. The point in this arrangement is to make possible necessary capital expansion by the farmer who must keep his farm unit of an economic size. Limitations on total farm size for which such securities could be issued could be included in the plan, since such limitations might very properly be a matter for public policy decision.

4. Rural housing loans - Many operators of farms would like to construct a new house for the farm family and if sufficient credit on reasonable terms were available they would do so. Under the Farm Improvement Loans Act farmers can obtain up to $7,500 for the erection of a farm home. This loan would have a maximum term of 10 years. At to-day's costs of construction, this amount might be far from adequate and the time for repayment too short. Moreover if a farmer obtains this

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maximum loan under the Farm Improvement Loans Act he could not obtain any further credit under this Act for other needed farm improvements and equipment. Also it would be necessary in order to obtain a loan for a farm house to accept a mortgage on the farm or part of the farm.

The Federation believes that housing loans should be available for dwellings on farms, both for the farm family and farm workers, that can be obtained without tying up the land as security. As is the case in cities, it should be possible to provide such loans on the security of the house, on the principle that it is out of the net income of the farmer that this living expense should be met. The amount of housing permitted on a farm under such arrangements should correspond to the requirements of the farm for economic use of manpower on such farm.

When the Canadian Federation of Agriculture made a nationwide survey on farm employment in the preparation of a brief for submission to the Senate Committee on Manpower and Employment many farmers stated that if a house could be constructed for a farm labourer and his family they would have a much better opportunity to obtain the needed hired help for the operation of their farms.

For the construction of an urban dwelling the size of a loan which may be provided by the Central Mortgage and Housing Corporation is much greater than $7,500 and the loan can be returned over a much longer period of time.

Under the Farmers' Home Administration of the United States Department of Agriculture rural housing loans are available to farm operators and to owners of non-farm tracts in rural areas and communities with populations of not more than 2,500. Each loan is scheduled for repayment in accordance with the borrower's ability to repay over a period of 33 years. The interest rate is 4 per cent. These loans may be made to farmers for their own farm families and for omestic farm labour. A loan may also be made to a farm landlord to construct a house for the tenant operator of the farm.

We recognize that the idea is advanced that for the construction of houses in urban areas there are advantages over loans for homes in rural areas because if the urban borrower is unable to repay the loan there is somewhat better opportunity for the lending agency to sell the urban dwelling. However, the government agency (probably the Central Mortgage and Housing Corporation) which would make the rural housing loan would provide the loan only to farmers who could demonstrate that they had the ability and experience and a sufficiently large farm business to obtain a farm income which would be adequate to pay the operating and family living expenses, the housing loan and other indebtedness. The agency could also make sure that the borrower has a good credit rating and was not too deeply in debt to other credit supplying agencies.

If a rural housing loan program were put into operation in Canada loans should be for terms of at least 20 years. The age of the borrower would be considered

when an application for such a loan was received. The agency would also ensure that the farmer's or labourer's house would be suitable in size, in type of construction and in its interior arrangement to meet the needs of those who would dwell therein.

A rural housing loan could be secured by a mortgage on the house itself representing a substantial proportion of its appraised cost and the rate of interest should not exceed 5 per cent.

If reasonable care were exercised by the government lending agency, losses on such rural housing loans should not exceed those on loans for the construction of urban dwellings.

New farm homes built under such a program would raise the living standards of the farm families, and their domestic help, and the rural community in which they would be located.

5. Speaking more generally, credit policy can profoundly effect the pattern of land settlement, and can be related to land tenure and production policy. - It is, in short, part and parcel of the whole farm policy picture - which in turn is an important factor in national economic policy. It is important that close watch be kept on emerging trends and needs in the farm credit and farm capital picture, and that these be related to the development of thinking and policy for agriculture. This is the field of questions as yet unanswered, and we recommend more research and enquiry. Demands for research are becoming commonplace (but nonetheless largely valid) in this complex world. A

specific recommendation we have in this connection is that first class research and development staff be attached to the Farm Credit Corporation, the institution which has continuing and intimate contzct with and knowledge of farm credit problems - as well as access to very considerable data collected in the ordinary course of business. We consider this to be an urgent requirement.

8. INTEREST RATES

The interest rate under the Farm Improvement Loans Act is 5 per cent, and the same under the Farm Credit Corporation. In neither case would we wish to see this interest rate increased.

In the case of the Farm Credit Corporation there is no reason why the interest rate should be more than 5 per cent, although as the program develops it is always possible that special credit needs might develop which would justify special interest rates at a somewhat higher level. As a long-term rate of credit 5 per cent seems to us to be quite high enough.

We would, in fact, say the same about the rate on Farm Improvement Loans. In this case we are aware that a strong pressure exists for either raising the 6 per cent limit on commercial bank lending, or eliminating the maximum altogether. Regarding this 6 per cent (and the 5 per cent on farm improvement loans) as charges on borrowers, we feel that these rates are quite high enough, and would not like to see them increased.

Interest rate flexibility can, of course, be

regarded as a means of allocating and rationing loans between borrowers, and it is true that in periods of relative scarcity of credit the 6 per cent limitation throws upon the banks what is essentially a responsibility to do their own rationing. There are two points to be considered here. First, it may very well be that the development of an adequate capital rationing policy by the banks as essentially a measure of public policy would be a good thing. If this were done the pressure of the need for more opportunity to raise interest charges would be very much reduced. We understand that in a broad way there is a trend toward more government control, and direct rationing of credit, in the financial and banking system of European countries. In some cases the major banks are in effect national banks. A recent monetary commission in Norway suggested the placing of government representatives on the boards of the major banks.

The other point is that monetary and fiscal policy may very well err in being so handled that the level of interest rates is high enough to make this 6 per cent maximum an issue. We in general feel, influenced by the experience of farmers as borrowers over the years, that public policy should keep interest rates down at levels which will make the 6 per cent a satisfactory and workable maximum. Other, and probably more satisfactory methods of monetary control and capital rationing than high interest rates should be relied upon.

The Farm Credit Corporation and The Industrial Development

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The Farm Credit Corporation and The Industrial

Bank - It has come to our attention that the Industrial Development Bank, under recent new powers, is making loans for agricultural production purposes - notably, so far, poultry enterprises. The sums involved may be quite large.

It is true that a weakness in Farm Credit Corporation policy has been, in our view, its unwillingness and/or inability to make loans to farmers wishing to set up in the specialized poultry or egg business. We would not want to see borrowing opportunities closed off for this type of credit. Nevertheless, we do not think that in principle the Industrial Development Bank should be making loans for agricultural production purposes. Such loans should be available to the extent, and on the basis, that they are needed and desired from a farm, rather than a purely commercial, point of view. Such lending should be done by government, through the Farm Credit Corporation, according to standards and criteria that seem desirable. If changes in the present Act are required to make this possible they should be made at once. The Industrial Development Bank should then get out of the agricultural credit business.

9. ARDA

Special mention should be made of what is known as the ARDA program for agriculture. ARDA stands for the Agricultural Rehabilitation and Development Act. It is new legislation, passed in the spring of 1961, and just getting under way this year. The Federal government

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has announced that it proposes to spend $50 million over the next three years on this program, and that this will involve roughly matching expenditures by provincial governments of $50 million.

ARDA is based on the proposition that in agricultural areas, especially those which are less prosperous economically, government should accept a responsibility for the encouragement and financing of projects which will promote better use of the nation's land and water resources, and at the same time increase employment and income opportunities for farm people both in and out of agriculture. It is basically designed to make possible healthy economic adjustment in the farm industry, and in rural communities. An important concept in the ARDA program is that of area and community planning - and planning, if possible, in which the whole community or region participates.

Except in the field of research, some of which the Federal government may do on its own, everything done under ARDA must be initiated by provincial governments, and either carried out by them with Federal financial assistance, or carried out jointly by province and the Federal government.

Projects under the Act now under three headings:

(a) Alternative Land use projects - These may include such undertakings as community pasture development; establishment of pastures by individual farmers on marginal land; projects to acquire land for provincial, municipal, county or other public forest purposes; tree planting projects of other kinds; assembly

of land for tree farming; maintenance, planning and establishment of farm woodlots and extension services for same; acquisition of land for recreational, wildlife or other such purposes, or the leasing of such land from farm owners for public use; other alternative land use undertakings.

(b) Soil and water conservation projects - These may include drainage projects, dykes, ditching systems, stream improvement, flood control, water supply projects as dams and dugouts, shelterbelts, stone removal, grassing and terracing, and other projects necessary to adequate soil and water conservation policies.

(c) Rural development projects - This is the broadest category, and perhaps the most important in the long run, but requiring interdepartmental co-operation, planning and citizen participation to a much greater degree than in the other two. Projects under this section include (i) Projects for establishing Rural Development Areas, and the area committees, and research projects in land use, other resource use, sociology, marketing and other economic problems, employment and training needs; (ii) projects which are found to be required and desired as a result of area planning.

This description is included in this submission because the whole concept of ARDA is obviously closely tied up with concepts not only of resource use planning, but of the employment of social capital, and the correction of economic and social distress by positive programs for investment of that capital. No doubt similar concepts

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applicable to urban areas, geographic regions and the nation as a whole will be raised with the Commission.

The Canadian Federation of Agriculture strongly supports the ARDA concept - not as a substitute for good farm policy in other directions, but as a supplement to it, and as a necessary means of attacking some of the problems of farmers not soluble otherwise. We think programs such as this can utilize private and social capital in ways that make a maximum contribution to both economic and social improvement. The need for a special flexible farm credit program related to the ARDA objectives has already been noted.

## 10. MONETARY POLICY, BANKING, FINANCIAL AND FISCAL POLICY

The Canadian Federation of Agriculture does not intend to adopt the role of expert in this highly technical and difficult field, and will put forward its views on policy largely in terms of broad principle.

Canada is a relatively small country in a big world. It is also a trading nation. It faced great challenges - the challenge of developing successful and productive industrial and agricultural economies that can compete effectively in world markets; the challenge of international trade and monetary policies that will make such industry possible; the challenge of public and private investment policies at home which are adapted to its economic needs. One senses, without perhaps fully understanding, that the best hope for the future must lie in increasingly effective, comprehensive and directed co-operation between industry, labour,

government and agriculture, and between Canada and other countries, if we are to continue to grow and prosper as we should, and at the same time equitably share the fruits of our progress.

If this is so, and we have little doubt that it is so, several needs seem to us to be clear:

There must be effective national economic planning in the sense in which we have been using the word in this submission. This sense is that for the private enterprise system to operate effectively it must operate in a framework of government policy, and where appropriate in partnership with government, order to achieve the nation's economic goals. The government's role today cannot be merely passive and legal. It must be positive, directing and participating.

The planning, of course, needs to be backed up by research and statistical services.

The level of public knowledge, understanding, and debate on fundamental issues of policy needs to be as high as possible. In particular well informed and responsible legislators must retain effective, basic control and direction of national policy in the public interest.

Representatives of economic interests like our own must have the opportunity to participate, through advisory bodies and in other ways, in the process of consideration of policy and implementation of it.

Canada must function effectively in the world arena in matters of trade, monetary and other economic policy, and must ensure that its domestic and external

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economic policies are mutually supporting and co-ordinated.

All this is, of course, very relevant to the concerns of this Commission. Monetary policy, and the flow of capital into investment, are central factors in economic growth and development. It is also important to the farmer. A leading United States economist whose particular field has been agricultural policy said in a recent article that:

> "Agricultural leaders have been altogether shortsighted in concentrating so much of their attention on the current level of farm prices and overlooking the serious adverse implications to their welfare of the high rate of unemployment and the mistakes in monetary and fiscal decisions that lie back of this excessive unemployment".

Another factor contributing to the need for careful examination of the role of government in banking and finance is the fact of concentration in Canada of financial institutions. For example, 3 Canadian banks hold 70 per cent of the assets in the banking business in Canada, and three trust companies do almost 70 per cent of the trust company business. (See Appendix E). In addition there are close relationships between the leading banks and trust companies as is illustrated by interlocking directorates. There are interconnections too with major insurance companies. This kind of concentration means that these institutions must inevitably be regarded as instruments of public policy. We are not making accusations here or finding dark plots, but

merely stating facts about the position of these institutions in the scheme of things. The question is whether they will be instruments that are in fact responsive and responsible to the public interest. They can, we would hope, be made so by an improved level of public debate on issues of banking and investment policy in which they are involved; by whatever degree of public direction and influence is necessary (through the Bank of Canada, legislation or consultation); or even by a positive degree of participation by government representatives on the Board of these institutions.

The need for adequate public information on, and authoritative analysis of the basic conditions and policy alternatives in our national economic life may be illustrated by recalling the broad range of public policy upon which a former Governor of the Bank of Canada undertook to comment and express his views. We think that within its field the Bank of Canada should play a positive role in informing the public of developments, trends, policies and policy alternatives. We think Mr. Coyne exceeded his proper role, but at the same time it must be admitted that Bank of Canada policy must properly be considered in the light of, and as part of, the total picture of economic policy in Canada, and no agency exists in Canada for the systematic and responsible analysis of, and reporting to the public on, Canada's economic position. Such an agency should exist.

National Economic Planning

We would suggest for the consideration of the Commission a three part recommendation directed at the

need for national economic planning and direction, a high level of public information and debate, research, and involvement of economic interest groups. We would recommend that:

(a) There should within the government be an economic planning body. The responsibility of this group would be the coordination and stimulation of government fiscal, monetary, investment and other economic policy in the framework of national economic and social policy and policy goals. This body of course must be adequately staffed and like the Treasury Board attached to the Cabinet and not to a particular minister.

(b) There should be a national Economic Advisory Planning Council, established on a representative basis. Such a Council should be advisory to the national government, but it should be more than this. It should have a secretariat and substantial resources of funds, and it should have the responsibility of issuing public reports to the nation in which the condition and progress of the economy is reviewed, the factors needing to be taken into account in national economic policy examined, the results of past policy decisions objectively analyzed, and policy alternatives and issues which face the nation set out. Such a body would in no sense take over the responsibilities of government and parliament for policy. But it should create the basis of public information and understanding necessary for government and parliament to make the difficult and complex decisions facing them with a better hope of the problems they face and the reasons for their decisions, and the arguments against

them, being better understood and appreciated.

(c) Greater resources should be made available for research into economic policy. In this connection the need for preserving the independence of the research is important. For the information of the Commission one plan for an independent research agency, this one in the agricultural field and in process now of formation, is presented in Appendix F.

National Accounts

Out national accounts should be developed on a basis that clearly distinguishes between investment and current expenditure, and that will facilitate to the maximum possible extent public examination and understanding of them. We are sure that considerable progress could be made in this direction. We think it is clear that unless there is effective separation of this kind in the accounts no adequate assessment may be made of government fiscal policy. A deficit on current account may be one thing. Borrowing for productive national investment may be quite another.

External Economic Relations

Agriculture as an industry in Canada is on an export basis. Also Canada is very much an export economy and it is a basic thesis of this submission that the farmer has a heavy stake in the maintenance of a high level of employment and growth in the economy as a whole. Economic depression or stagnation can only make more acute the economic problems of the farmer. The success of Canada's economic policy in the field of external relations, including trade policy, handling of the question

of the exchange rate, formation of common markets, and international agreement in agricultural marketing matters, is a matter of prime concern to the farmer.

Not all these matters are of direct concern to this Commission under its terms of reference of course. Questions concerning the flow of capital into and out of the economy are within your terms of reference, and so is the question of policy with respect to the exchange value of the Canadian dollar. Nevertheless, in the international field, where relations with other countries and trade with other countries are affected, a consistent basic attitude is greatly to be desired. This attitude should, we believe, be that Canada's interest lies in a belief in international co-operation, international law and international agreement. The fundamental direction of our trade policy should be toward freer trade. The basis of our external agricultural policy should be to favour international consultation and agreement on prices, markets and surplus problems, since in all countries it is recognized that the problems of agriculture do not lend themselves to the same type of solutions in trade policy as do problems of industrial trade policy.

Decisions in the field of banking and finance, and monetary and fiscal policy, should be taken within the framework of this basic approach toward international co-operation instead of unilateral attempts to solve our own problems by ourselves.

The question of the exchange value of the Canadian dollar raises an issue of considerable complexity of course. Still, it must be mentioned because of its

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importance and interest to farmers, and to the economy as a whole. As net exporters of what they produce, and under heavy competitive pressure from imports in some fields, farmers are naturally inclined to look with favour on a relatively low Canadian dollar value in relation to other currencies. Still it must of course be recognized that the exchange rate is a price - the resultant of basic economic factors, and cannot be set at just any level. The fundamental consideration is again, that we have a healthy and growing trade, and a expanding economy.

<u>Inflation & Recession</u> - Appearing before the Senate Committee studying inflation the Canadian Federation of Agriculture concluded, in brief that:

1. It favoured economic growth combined with stability in the value of the currency.
2. If the choice had to be between more sustained growth plus a little inflation, on the one hand, and a steady dollar with costly recurrent recession, on the other, then it favoured growth with some inflation.

Traditional economic theory has always put the farmer on the side of cheap money and expansionist policy - because he is a holder of real assets rather than money, a debtor rather than a creditor, and the seller of products that, in the aggregate, have a very inelastic demand.

The structural changes being forced on agriculture in the 50's, accompanied by severe downward pressure on prices and rising costs, struck the farmer,

however, as adding up to a very strong argument against inflation. Where you have this chronic tendency to surplus, and institutional factors affecting prices (such as international agreements, price supports, price negotiation procedures ) it is true that there can be a severe lag between increases in the price level and upward adjustment of these administered prices. Yet on the whole we think that the traditional view is correct - that on balance the farmers' interest lies in an expansionist economic policy, without excessive emphasis on keeping the dollar hard and interest rates up. We believe also that such a policy is in the long run in the interests of the economy.

It must after all be kept in mind that the most severe loss that an economy can suffer is unemployment of its human and natural resources. Waste of this kind cannot be made up.

<u>General Credit Policies</u> - The Canadian Federation of Agriculture fully supports the passage of a Finance Charge (Disclosure) Act along the lines being advanced by Senator Croll. Its main motivation here has been humanitarian - that is, opposed to excessively heavy credit costs to individuals, and to the mystery respecting those costs, that leads to unwise use of credit.

However, a strong statement by Professor Hood in "Financing of Economic Activity in Canada" puts the argument in economic terms:

> "We contend that if consumers wish and are able to pay high costs of borrowed money in full knowledge of these costs, it is a proper

function of the capital market to supply them. We contend equally, however, that if consumers are unaware of the cost of the funds they borrow, there is a presumption that to some extent (what extent cannot be stated) funds and resources are misallocated. Suppliers of funds to consumers do not usually state the costs of the funds clearly. Indeed, consumers could not know these costs in most cases without making elaborate calculations that are beyond the abilities of persons not trained in the mathematics of finance. In many instances, other terms of the loan contract apart from the cost of funds, such as the monthly servicing charge, and the proportion of the amount borrowed to the price of the real asset being purchased, are given overriding consideration. In fact the possibilities of hiding increases in costs by extending amortization periods for example, make it easier for consumer finance companies to maintain or increase the volume of their loans outstanding even when they have to pay more for the funds they borrow. The insensitivity of consumer-borrowers to costs of funds may not only distort the allocation of funds by the capital market but may also frustrate the efforts of monetary authorities to restrain the increases in credit in times of inflation. This frustration has been experienced in Canada and was heightened by the ability of

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instalment finance companies to develop or tap new sources of funds when traditional sources were curtailed (directly or indirectly) by the monetary authorities.....

"The insensitivity of consumer-borrowers to the costs of funds may be impossible to overcome, but as we suggested in Chapter 5, we should at least take steps to ensure that individuals are informed of the rates of interest they are required to pay and informed in such a way that they may easily,without using slide rules, compare the rate charged at one source with the rate charged at others. If the suppliers of the funds themselves continue to display an unwillingness to advertise their charges clearly and effectively, it may be necessary to exercise Parliament's jurisdiction over matters pertaining to rates of interest and pass legislation requiring uniform, clear announcement of the rates of interest charged on loans to consumers, in terms of some common formula."

Our strong inclination is also to support a lowering of the legal rate of interest on small loans and a raising of the definition of small loans to about $1000. Credit that costs the borrower upwards of 24 per cent is not good credit. If the costs of advancing such credit run to levels like this, then the answer lies in public education, withholding credit from unsound risks, increased reliance on credit unions, and other

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[illegible]

such measures.

Respectfully submitted

THE CANADIAN FEDERATION OF AGRICULTURE

TABLE 1

Land Area and Agricultural Land Use, Canada, 1901-61

| Census year[a] | Total land area | Total farm area | Improved farmland | | | | Unimproved land | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Total[b] | Crops | Summer fallow | Pasture | Total | Wood land | Other land |
| | - millions of acres - | | | | | | | | |
| 1901 | 858.1 | 63.4 | 30.2 | 20.2 | - | - | 33.3 | 16.8 | 16.5 |
| 1911 | 963.4 | 109.0 | 48.7 | 35.9 | 2.5 | - | 60.2 | 17.5 | 42.8 |
| 1921 | 1,353.7 | 140.9 | 70.8 | 50.0 | 12.0 | 7.6 | 70.1 | 23.8 | 46.3 |
| 1931 | 1,246.8 | 163.1 | 85.7 | 58.3 | 17.0 | 8.0 | 77.4 | 26.6 | 50.7 |
| 1941 | 1,246.8 | 173.6 | 91.6 | 56.3 | 23.5 | 8.5 | 81.9 | 22.3 | 59.7 |
| 1951 | 2,272.0 | 174.0 | 96.9 | 62.2 | 22.0 | 10.0 | 77.2 | 22.8 | 54.5 |
| 1956 | 2,272.0 | 173.9 | 100.3 | 62.9 | 24.6 | 10.1 | 73.6 | 19.5 | 54.1 |
| 1961 | - | 172.6 | - | - | - | - | - | - | - |

a. Data for the Yukon and the Northwest Territories for 1951 and 1956 only.

b. Includes such land as barnyards, lanes, and farm roads.

Source:- (i) Handbook of Agricultural Statistics, August 1955. Reference Paper No. 25-Part III, Trends in Canadian Agriculture. Economics Division, Department of Agriculture, and Agriculture Division, Dominion Bureau of Statistics.
(ii) Census of Canada.

TABLE II

Occupied Farms, Canada and Regions, 1901-61

| Year[a] | Canada | Atlantic region | Central region | Prairie region | British Columbia | Yukon and Northwest Territories |
|---|---|---|---|---|---|---|
| | | | - number - | | | |
| 1901......... | 511,073 | 105,232 | 344,164 | 55,176 | 6,501 | - |
| 1911......... | 682,329 | 104,359 | 361,809 | 199,203 | 16,958 | - |
| 1921......... | 711,090 | 97,788 | 335,672 | 255,657 | 21,973 | - |
| 1931......... | 728,664 | 86,334 | 328,131 | 288,079 | 26,079 | 41 |
| 1941[b]........ | 677,500 | 69,100 | 312,100 | 274,500 | 21,800 | - |
| 1951......... | 623,091 | 63,709 | 284,256 | 248,716 | 26,406 | 4 |
| 1956......... | 575,015 | 55,010 | 263,219 | 232,016 | 24,748 | 22 |
| 1961[c]........ | 480,903 | - | - | - | - | - |

a Number of farms for the Census years was taken from the Census of Agriculture.

b Adjusted according to the definition of a farm in 1951 and 1956 census.

c The definition of a farm for the 1961 census was modified from previous years. On the basis of the 1956 definition the number of farms would have been 521,634.

- - - - - - - - - - - -

TABLE III

Average Size of Farm, Canada and Regions, 1901-56

| Year | Canada | Atlantic region | Central region | Prairie region | British Columbia | Yukon and Northwest Territories |
|---|---|---|---|---|---|---|
| | | | - acres - | | | |
| 1901.......... | 124 | 102 | 104 | 279 | 230 | - |
| 1911.......... | 160 | 105 | 104 | 289 | 150 | - |
| 1921.......... | 198 | 104 | 119 | 344 | 130 | - |
| 1931.......... | 224 | 112 | 133 | 381 | 136 | 127 |
| 1941[a].......... | 256 | 130 | 130 | 438 | 185 | - |
| 1951.......... | 279 | 123 | 132 | 498 | 178 | 108 |
| 1956.......... | 302 | 125 | 136 | 546 | 183 | 204 |

a Adjusted according to the definition of a farm in 1951 and 1956 census.

TABLE IV

Value of Farm Capital, Canada, 1956-60

| Year | Land and Buildings | Machinery | Livestock | Total |
|---|---|---|---|---|
| | | - million dollars - | | |
| 1935............ | 3,449 | 534 | 541 | 4,524 |
| 1936............ | 3,292 | 524 | 574 | 4,390 |
| 1937............ | 3,253 | 527 | 604 | 4,384 |
| 1938............ | 3,063 | 544 | 587 | 4,214 |
| 1939............ | 3,107 | 547 | 644 | 4,298 |
| 1940............ | 2,963 | 568 | 682 | 4,213 |
| 1941............ | 3,030 | 596 | 621 | 4,247 |
| 1942............ | 3,238 | 660 | 783 | 4,681 |
| 1943............ | 3,454 | 722 | 1,098 | 5,274 |
| 1944............ | 3,649 | 758 | 1,082 | 5,489 |
| 1945............ | 3,711 | 827 | 1,042 | 5,580 |
| 1946............ | 3,897 | 905 | 1,075 | 5,877 |
| 1947............ | 4,212 | 1,027 | 1,149 | 6,388 |
| 1948............ | 4,665 | 1,195 | 1,245 | 7,105 |
| 1949............ | 4,717 | 1,416 | 1,371 | 7,504 |
| 1950............ | 5,023 | 1,681 | 1,468 | 8,172 |
| 1951............ | 5,513 | 1,932 | 2,014 | 9,459 |
| 1952............ | 5,622 | 2,038 | 1,791 | 9,451 |
| 1953............ | 6,034 | 2,152 | 1,557 | 9,743 |
| 1954............ | 5,984 | 2,241 | 1,424 | 9,649 |
| 1955............ | 6,236 | 2,210 | 1,463 | 9,909 |
| 1956............ | 6,456 | 2,193 | 1,423 | 10,072 |
| 1957............ | 6,528 | 2,198 | 1,517 | 10,243 |
| 1958............. | 6,869 | 2,178 | 1,879 | 10,926 |
| 1959............ | 7,176 | 2,189 | 1,989 | 11,354 |
| 1960............ | 7,409 | 2,248 | 1,914 | 11,571 |

Source: - Quarterly Bulletin of Agricultural Statistics, Dominion Bureau of Statistics.

TABLE V

Capital and Repair Expenditures on Canadian Farms, 1935-61

| Year | Capital expenditures | | | Repair expenditures | | | Capital & repair expenditures |
|---|---|---|---|---|---|---|---|
| | Construction | Machinery and equipment | Total | Construction | Machinery and equipment | Total | Grand total |
| | 1 | 2 | (1+2) 3 | 4 | 5 | (4+5) 6 | (3+6) 7 |
| | - million dollars - | | | | | | |
| 1935 | 5.3 | 34.4 | 39.7 | 9.6 | 22.2 | 31.8 | 71.5 |
| 1936 | 7.1 | 44.2 | 51.3 | 10.3 | 25.7 | 36.0 | 87.3 |
| 1937 | 9.1 | 62.9 | 72.0 | 10.1 | 32.7 | 42.8 | 114.8 |
| 1938 | 8.5 | 67.4 | 75.9 | 10.7 | 35.7 | 46.4 | 122.3 |
| 1939 | 10.1 | 63.0 | 73.1 | 10.8 | 35.4 | 46.2 | 119.3 |
| 1940 | 11.0 | 82.6 | 93.6 | 14.2 | 41.3 | 55.5 | 149.1 |
| 1941 | 15.3 | 90.0 | 105.3 | 19.9 | 44.7 | 64.6 | 169.9 |
| 1942 | 13.7 | 71.0 | 84.7 | 26.5 | 46.3 | 72.8 | 157.5 |
| 1943 | 14.0 | 39.3 | 53.3 | 34.1 | 46.2 | 80.3 | 133.6 |
| 1944 | 20.3 | 72.6 | 92.9 | 39.1 | 48.7 | 87.8 | 180.7 |
| 1945 | 25.6 | 89.8 | 115.4 | 37.4 | 52.1 | 89.5 | 204.9 |
| 1946 | 39.1 | 132.8 | 171.9 | 36.1 | 60.0 | 96.1 | 268.0 |
| 1947 | 45.4 | 213.2 | 258.6 | 39.6 | 70.9 | 110.5 | 369.1 |
| 1948 | 56.9 | 275.0 | 331.9 | 47.2 | 80.2 | 127.4 | 459.3 |
| 1949 | 72.5 | 352.6 | 425.1 | 56.9 | 83.0 | 139.9 | 565.0 |
| 1950 | 71.2 | 384.6 | 455.8 | 57.4 | 90.7 | 148.1 | 603.9 |
| 1951 | 80.5 | 416.6 | 497.1 | 63.5 | 92.4 | 155.9 | 653.0 |
| 1952 | 87.4 | 445.9 | 533.3 | 66.1 | 101.7 | 167.8 | 701.1 |
| 1953 | 95.3 | 433.6 | 528.9 | 72.2 | 107.0 | 179.2 | 708.1 |
| 1954 | 77.1 | 282.9 | 360.0 | 68.3 | 105.9 | 174.2 | 534.2 |
| 1955 | 86.1 | 307.1 | 393.6 | 65.6 | 111.2 | 176.8 | 570.4 |
| 1956 | 98.1 | 353.4 | 451.5 | 72.8 | 121.0 | 193.8 | 645.3 |
| 1957 | 92.1 | 317.6 | 407.7 | 66.9 | 117.7 | 184.6 | 594.3 |
| 1958 | 100.2 | 342.9 | 443.1 | 72.9 | 121.0 | 193.9 | 637.0 |
| 1959 | 108.5 | 412.4 | 520.9 | 78.9 | 131.4 | 210.3 | 731.2 |
| 1960 | 105.3 | 417.7 | 523.0 | 76.5 | 135.0 | 211.5 | 734.5 |
| a/1961 | 106.9 | 390.9 | 497.8 | 77.7 | 133.6 | 211.3 | 709.1 |

Source: Unpublished data, Investment Analysis Division, Economics Branch, Dept. of Trade and Commerce, Ottawa.

a/ Preliminary estimate.

TABLE VI

Sales of Farm Implements and Equipment, Canada, 1936-60

| Year | Planting, seeding and fertilizer machinery | Tillage, cultivating, weeding and ploughing machinery | Haying machinery | Harvesting machinery | Tractors and engines | Misc-ellaneous[a] | All types |
|---|---|---|---|---|---|---|---|
| | - thousand dollars - | | | | | | |
| 1936 | 1,316 | 5,752 | 1,039 | 2,543 | 6,633 | 2,061 | 19,344 |
| 1937 | 2,209 | 7,734 | 1,294 | 3,884 | 13,329 | 2,325 | 30,775 |
| 1938 | 1,855 | 7,205 | 1,434 | 7,099 | 15,972 | 2,648 | 36,213 |
| 1939 | 1,358 | 6,903 | 1,097 | 6,776 | 15,412 | 2,514 | 34,060 |
| 1940 | 2,271 | 10,447 | 1,497 | 9,896 | 21,301 | 2,336 | 47,748 |
| 1941 | 2,129 | 12,083 | 1,836 | 7,587 | 23,188 | 5,283 | 52,106 |
| 1942 | 2,570 | 10,420 | 1,818 | 10,211 | 19,644 | 5,799 | 50,462 |
| 1943 | 1,493 | 8,196 | 923 | 4,695 | 9,507 | 4,983 | 29,797 |
| 1944 | 2,135 | 5,533 | 1,625 | 9,548 | 22,487 | 13,496 | 54,824 |
| 1945 | 2,961 | 7,203 | 2,444 | 13,168 | 20,977 | 17,540 | 64,293 |
| 1946 | 3,646 | 10,185 | 3,733 | 15,211 | 24,983 | 23,940 | 81,698 |
| 1947 | 5,083 | 14,516 | 5,688 | 23,179 | 42,223 | 31,706 | 122,395 |
| 1948 | 7,023 | 21,298 | 9,351 | 36,047 | 63,065 | 33,882 | 170,666 |
| 1949 | 8,138 | 30,179 | 10,569 | 39,088 | 102,026 | 27,090 | 217,090 |
| 1950 | 8,806 | 38,430 | 10,610 | 44,243 | 98,001 | 28,097 | 218,187 |
| 1951 | 9,516 | 27,962 | 14,844 | 58,641 | 92,662 | 31,995 | 235,620 |
| 1952 | 9,151 | 28,373 | 17,230 | 74,336 | 89,992 | 31,196 | 250,277 |
| 1953 | 8,130 | 27,567 | 19,787 | 69,580 | 85,261 | 27,725 | 238,050 |
| 1954 | 5,707 | 17,845 | 17,730 | 26,195 | 55,168 | 24,058 | 146,703 |
| 1955 | 5,340 | 15,242 | 19,820 | 27,564 | 58,760 | 26,398 | 153,124 |
| 1956 | 6,094 | 15,089 | 27,245 | 34,753 | 63,262 | 24,324 | 170,767 |
| 1957 | 6,703 | 16,797 | 23,566 | 23,984 | 56,651 | 22,201 | 149,902 |
| 1958 | 7,104 | 19,446 | 26,257 | 29,051 | 63,171 | 26,1[illegible]5 | 172,014 |
| 1959 | 7,894 | 23,109 | 30,655 | 44,122 | 78,938 | 27,513 | 212,231 |
| 1960 | 7,873 | 24,285 | 30,544 | 46,485 | 80,093 | 28,165 | 217,435 |

Source: Farm Industry and Equipment Sales, Dominion Bureau of Statistics.

a Miscellaneous includes machines for preparing crops for market or use; spraying and dusting orchard or garden; farm wagons, trucks, and sleighs; water systems, pumps and septic tanks; dairy machinery and equipment; barn, poultry and other farm equipment.

TABLE VII

Fertilizer Sold and Limestone Produced for Agricultural Purposes, Canada, 1935-61

| Year ended June 30 | Total fertilizer sold[a] | Lime produced | Limestone produced |
|---|---|---|---|
| | - tons - | | |
| 1935 | 212,479 | 6,430 | 81,564 |
| 1936 | 233,840 | 6,551 | 93,071 |
| 1937 | 298,276 | 6,697 | 111,428 |
| 1938 | 323,376 | 6,495 | 128,289 |
| 1939 | 334,003 | 8,547 | 191,833 |
| 1940 | 346,721 | 8,904 | 174,114 |
| 1941 | 324,201 | 15,144 | 216,657 |
| 1942 | 419,547 | 9,251 | 285,924 |
| 1943 | 498,861 | 13,299 | 271,036 |
| 1944 | 535,108 | 15,190 | 316,545 |
| 1945 | 575,107 | 14,420 | 419,579 |
| 1946 | 632,943 | 4,294 | 480,639 |
| 1947 | 660,721 | 6,664 | 450,553 |
| 1948 | 672,171 | 12,249 | 595,421 |
| 1949 | 741,726 | 15,274 | 649,220 |
| 1950 | 764,581 | 14,088 | 568,280 |
| 1951 | 770,507 | 14,709 | 567,300 |
| 1952 | 768,545 | 13,587 | 464,122 |
| 1953 | 819,803 | 12,310 | 510,547 |
| 1954 | 811,641 | 10,923 | 362,110 |
| 1955 | 790,774 | 5,420 | 424,028 |
| 1956 | 800,680 | 6,251 | 476,506 |
| 1957 | 808,251 | 3,181 | 608,912 |
| 1958 | 870,539 | 3,538 | 691,067 |
| 1959 | 908,214 | 8,515 | 703,167 |
| 1960 | 935,428 | n/a | n/a |
| 1961 | 1,077,412 | n/a | n/a |

a Excluding fertilizer used for manufacturing and exports of fertilizer.

Source: Fertilizer Trade, Annual Reports, Dominion Bureau of Statistics.

n/a: Not available.

TABLE VIII

Sales of Pesticides, Canada, 1947-61

| Year ended September 30 | Herbicides | Crop and seed treatment | Livestock treatment | Total |
|---|---|---|---|---|
| | | - thousand dollars - | | |
| 1947 | 1,046 | 3,936 | 449 | 5,432 |
| 1948 | 3,570 | 4,096 | 423 | 8,088 |
| 1949 | 4,676 | 4,946 | 535 | 10,158 |
| 1950 | 5,763 | 4,661 | 624 | 11,048 |
| 1951 | 5,926 | 4,501 | 1,182 | 12,610 |
| 1952 | 6,247 | 5,204 | 1,257 | 12,708 |
| 1953 | 5,700 | 6,292 | 1,587 | 13,579 |
| 1954 | 4,721 | 7,395 | 2,760 | 14,876 |
| 1955 | 5,730 | 7,834 | 4,798 | 18,362 |
| 1956 | 5,974 | 7,180 | 7,001 | 20,155 |
| 1957[b] | 6,450 | 7,067 | 1,317[c] | 14,834 |
| 1958 | 5,666 | 7,976 | 1,703 | 15,345 |
| 1959 | 7,608 | 9,630 | 1,748 | 18,986 |
| 1960 | 8,396 | 9,872 | 1,889 | 20,157 |
| 1961 | 10,925 | 12,329 | 2,420 | 25,674 |

a Excludes household and industrial insecticides and rodenticides.

b. Beginning with 1957, 12 months ending September 30; previous periods of reporting were on a calendar year basis.

c Excludes medicated feeds since the registration of this product was discontinued in 1957.

Source: Sales of Pest Control Products by Canadian Registrants, Dominion Bureau of Statistics.

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TABLE IX

Farm Service Furnished by Central Electric Stations, Canada, 1944-60[a]

| Year | Customers | Total kilowatt hours | Average kilowatt hours per customer |
|---|---|---|---|
| | No. | - 000 - | No. |
| 1944 | 116,609 | 146,930 | 1,260 |
| 1945 | 130,078 | 176,812 | 1,359 |
| 1946 | 148,272 | 230,998 | 1,558 |
| 1947 | 169,518 | 285,753 | 1,686 |
| 1948 | 213,205 | 364,723 | 1,711 |
| 1949 | 250,866 | 439,570 | 1,752 |
| 1950 | 303,727 | 586,749 | 1,932 |
| 1951 | 336,345 | 701,131 | 2,085 |
| 1952 | 359,870 | 823,325 | 2,288 |
| 1953 | 384,347 | 930,808 | 2,420 |
| 1954 | 411,134 | 1,098,574 | 2,672 |
| 1955 | 441,694 | 1,238,061 | 2,803 |
| 1956 | 466,697 | 1,428,125 | 3,060 |
| 1957 | 456,248 | 1,557,931 | 3,415 |
| 1958 | 468,334 | 1,726,016 | 3,685 |
| 1959 | 482,907 | 1,973,018 | 4,068 |
| 1960 | 484,633 | 2,105,787 | 4,345 |

a Newfoundland included only since 1956.

Source: (i) Canada Year Books
(ii) Central Electric Stations, Annual Reports, Dominion Bureau of Statistics.

TABLE X

Farm Operating Expenses and Depreciation Charges, Canada, 1950-60

| | 1950 | 1951 | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | - thousand dollars - | | | | | | | | | | |
| Taxes a | 81,806 | 92,076 | 102,000 | 110,790 | 119,383 | 122,593 | 129,964 | 135,552 | 142,163 | 148,267 | 154,086 |
| Gross rent | 84,884 | 98,187 | 108,804 | 82,498 | 52,843 | 75,436 | 77,895 | 60,964 | 63,881 | 62,559 | 69,252 |
| Wages paid to labor | 145,620 | 160,210 | 173,989 | 173,314 | 160,[illegible]18 | 162,971 | 174,150 | 174,385 | 179,982 | 184,364 | 194,29[illegible] |
| Interest on indebtedness ab | 32,547 | 34,101 | 36,180 | 37,850 | 39,276 | 40,755 | 42,449 | 43,3[illegible]0 | 45,444 | 47,225 | 49,002 |
| Feed and seed purchased through commercial channels | 271,620 | 276,579 | 285,662 | 240,155 | 274,527 | 280,197 | 307,254 | 280,741 | 322,394 | 337,739 | 316,383 |
| Tractor expenses | 123,867 | 131,404 | 139,357 | 148,807 | 157,109 | 161,957 | 177,680 | 183,869 | 183,562 | 188,515 | 186,311 |
| Truck expenses | 54,727 | 70,988 | 71,860 | 76,788 | 79,985 | 86,090 | 88,448 | 91,936 | 100,415 | 106,741 | 109,44[illegible] |
| Automobile expenses for farm business | 45,[illegible] | 52,127 | 54,187 | 54,162 | 54,888 | 55,792 | 59,365 | 59,938 | 60,655 | 62,032 | 61,951 |
| [illegible] and combine expenses | 11,403 | 11,331 | 11,904 | 12,258 | 12,529 | 12,936 | 14,908 | 15,122 | 14,636 | 15,267 | 15,2[illegible]3 |
| Machinery repairs c | 60,638 | 57,890 | 62,515 | 63,611 | 56,076 | 58,357 | 64,233 | 68,684 | 68,863 | 78,365 | 77,227 |
| Fertilizer and lime | 41,903 | 46,951 | 50,905 | 58,044 | 53,021 | 54,079 | 55,544 | 56,962 | 62,004 | 68,952 | 72,499 |
| Fruit and vegetables supples d | 25,310 | 30,270 | 31,309 | 30,150 | 29,258 | 33,787 | 33,319 | 33,016 | 30,291 | 33,194 | 35,062 |
| Repairs to buildings a | 4[illegible],203 | 65,645 | 82,934 | 87,684 | 80,559 | 85,300 | 94,726 | 87,101 | 94,790 | 105,105 | 100,61[illegible] |
| Electric power | 6,305 | 7,919 | 9,126 | 10,967 | 12,692 | 13,914 | 15,186 | 16,589 | 18,250 | 19,428 | 20,[illegible] |
| Miscellaneous e | 82,410 | 96,562 | 99,251 | 99,111 | 99,826 | 104,907 | 117,126 | 112,806 | 119,411 | 130,271 | 123,282 |
| Depreciation, buildings a and machinery | 218,725 | 249,844 | 260,767 | 276,503 | 285,375 | 284,789 | 284,749 | 285,349 | 286,449 | 291,747 | 293,139 |
| Totals, operating expenses and depreciation | 1,331,700 | 1,482,094 | 1,580,800 | 1,562,692 | 1,579,175 | 1,633,860 | 1,737,096 | 1,706,439 | 1,793,190 | 1,879,771 | 1,887,[illegible] |

Source: Farm Net Income, Dominion Bureau of Statistics.
Quarterly Bulletin of Agricultural Statistics, D.B.S., January-March, 1960, p.11.

a Owned land and buildings only.
b Secured and unsecured debt.
c Repair parts and machine shop charges.
d Pesticides, containers and nursery stock.
e Veterinary expenses, binder and baler twine, irrigation charges, fence repairs, rope, salt, hardware, purchases of livestock, livestock registration, artificial insemination charges, etc.

TABLE XI

Estimates of the Canadian Civilian Labor Force, All Industries and Agriculture, by Sex, 1931-60

| Year | Total all industries | | | Agriculture | | | Agriculture as per cent of all industries |
|---|---|---|---|---|---|---|---|
| | Male | Female | Total | Male | Female | Total | |
| | - thousands of persons with jobs | | | | | | - per cent - |
| 1931 | 2,931 | 739 | 3,670 | 1,087 | 129 | 1,216 | 33.1 |
| 1932 | 2,747 | 723 | 3,470 | 1,100 | 137 | 1,237 | 35.6 |
| 1933 | 2,721 | 728 | 3,449 | 1,113 | 144 | 1,257 | 36.4 |
| 1934 | 2,932 | 775 | 3,707 | 1,126 | 151 | 1,277 | 34.4 |
| 1935 | 2,982 | 795 | 3,777 | 1,139 | 159 | 1,298 | 34.4 |
| 1936 | 3,073 | 822 | 3,895 | 1,153 | 166 | 1,319 | 33.9 |
| 1937 | 3,254 | 861 | 4,115 | 1,166 | 173 | 1,339 | 32.5 |
| 1938 | 3,209 | 857 | 4,066 | 1,179 | 180 | 1,359 | 33.4 |
| 1939 | 3,247 | 873 | 4,120 | 1,192 | 187 | 1,379 | 33.5 |
| 1940 | 3,273 | 911 | 4,184 | 1,166 | 178 | 1,344 | 32.1 |
| 1941 | 3,313 | 958 | 4,271 | 1,066 | 158 | 1,224 | 28.6 |
| 1942 | 3,364 | 1,070 | 4,434 | 943 | 196 | 1,139 | 25.7 |
| 1943 | 3,136 | 1,355 | 4,491 | 947 | 171 | 1,118 | 24.9 |
| 1944 | 3,098 | 1,387 | 4,485 | 948 | 188 | 1,136 | 25.3 |
| 1945 | 3,053 | 1,394 | 4,447 | 943 | 201 | 1,144 | 25.7 |
| 1946 | 3,649 | 1,089 | 4,738 | 1,071 | 200 | 1,271 | 26.8 |
| 1947 | 3,793 | 1,069 | 4,862 | 1,001 | 171 | 1,172 | 24.1 |
| 1948 | 3,880 | 1,074 | 4,954 | 1,026 | 160 | 1,186 | 23.9 |
| 1949 | 3,892 | 1,099 | 4,991 | 982 | 132 | 1,114 | 22.3 |
| 1950 | 3,944 | 1,112 | [illegible] | 973 | 93 | 1,066 | 21.1 |
| 1951 | 3,993 | 1,162 | 5,155 | 892 | 99 | 991 | 19.2 |
| 1952 | 4,059 | 1,180 | 5,239 | 841 | 86 | 927 | 17.7 |
| 1953 | 4,097 | 1,174 | 5,272 | 848 | 50 | 898 | 17.0 |
| 1954 | 4,074 | 1,181 | 5,255 | 858 | 35 | 893 | 17.0 |
| 1955 | 4,144 | 1,227 | 5,371 | 837 | 36 | 873 | 16.3 |
| 1956 | 4,265 | 1,320 | 5,585 | 737 | 39 | 776 | 13.9 |
| 1957 | 4,325 | 1,400 | 5,725 | 705 | 39 | 744 | 13.0 |
| 1958 | 4,256 | 1,439 | 5,695 | 660 | 52 | 712 | 12.5 |
| 1959 | 4,353 | 1,502 | [illegible] | 644 | 48 | 692 | 11.8 |
| 1960 | 4,362 | 1,593 | 5,955 | 624 | 50 | 675 | 11.3 |

Source: (i) Canadian Labour Force Estimates, 1931-1945. Reference Paper No. 23 (Revised). Dominion Bureau of Statistics.

(ii) The Labour Force, November 1945-July 1958. Reference Paper No. 58. 1958 Revision. Dominion Bureau of Statistics.

(iii) Labour force surveys of the Dominion Bureau of Statistics.

This table was extracted from Trends in the Agricultural Labour Force in Canada, a bulletin prepared in 1960 by the Economics and Research Branch of the Department of Labour, Ottawa.

TABLE XII

Value of Farm Output per Person Employed in Agriculture, Index of Farm Production and Number of Persons Supported by One Farm Worker, 1935-60

| Year | Farm output a/ * | Output per person employed in agriculture b/ | Index of farm production c/ 1935-39 = 100* | Number of persons supported by one farm worker d/ |
|---|---|---|---|---|
| | - 000 dollars - | $ | | - number - |
| 1935 | 702,418 | 541 | 95.2 | 10.7 |
| 1936 | 804,701 | 610 | 85.1 | 11.9 |
| 1937 | 826,499 | 617 | 83.7 | 10.0 |
| 1938 | 859,074 | 632 | 107.4 | 9.3 |
| 1939 | 942,366 | 684 | 128.7 | 9.6 |
| 1940 | 988,749 | 736 | 130.1 | 9.9 |
| 1941 | 1,125,309 | 919 | 109.1 | 11.5 |
| 1942 | 1,658,635 | 1,456 | 164.2 | 12.2 |
| 1943 | 1,760,197 | 1,574 | 113.7 | 14.4 |
| 1944 | 2,190,666 | 1,928 | 140.4 | 16.2 |
| 1945 | 2,163,291 | 1,891 | 110.9 | 17.8 |
| 1946 | 1,976,023 | 1,555 | 125.6 | 12.2 |
| 1947 | 2,272,558 | 1,939 | 116.0 | 13.3 |
| 1948 | 2,723,198 | 2,296 | 125.1 | 13.1 |
| 1949 | 2,809,961 | 2,522 | 122.3 | 14.8 |
| 1950 | 2,537,651 | 2,381 | 137.8 | 14.1 |
| 1951 | 3,408,728 | 3,440 | 154.7 | 15.7 |
| 1952 | 3,495,108 | 3,770 | 166.2 | 19.6 |
| 1953 | 3,205,502 | 3,570 | 157.9 | 20.5 |
| 1954 | 2,797,972 | 3,133 | 119.7 | 18.9 |
| 1955 | 2,890,496 | 3,311 | 150.4 | 19.1 |
| 1956 | 3,190,227 | 4,111 | 169.5 | 23.2 |
| 1957 | 3,040,100 | 4,086 | 133.9 | 23.9 |
| 1958 | 3,199,899 | 4,494 | 145.3 | 27.0 |
| 1959 | 3,203,017 | 4,629 | 145.1 | 27.2 |
| 1960 | 3,168,791 | 4,695 | 156.2 | 27.7 |

* Quarterly Bulletin of Agricultural Statistics, Dominion Bureau of Statistics.

a Includes cash income, income in kind and inventory changes.
b Derived by dividing total farm output by persons employed in agriculture.
c Farm Finance Section, Agriculture Division, Dominion Bureau of Statistics.
d Derived by dividing output per farm worker by consumption per consumer.

## TABLE XIII

Total Exports of Canadian Produce and Agricultural Exports, Canada, 1930-60

| Year | Total exports of Canadian produce a/ | Agricultural exports b/ | Agricultural exports as a percentage of total |
|---|---|---|---|
| | - million dollars - | | |
| 1930 | 864 | 322 | 37.3 |
| 1931 | 588 | 206 | 35.0 |
| 1932 | 490 | 222 | 45.3 |
| 1933 | 529 | 225 | 42.5 |
| 1934 | 649 | 252 | 38.8 |
| 1935 | 725 | 272 | 37.5 |
| 1936 | 938 | 404 | 43.1 |
| 1937 | 997 | 315 | 31.6 |
| 1938 | 838 | 254 | 30.3 |
| 1939 | 925 | 291 | 31.5 |
| 1940 | 1,179 | 324 | 27.5 |
| 1941 | 1,621 | 409 | 25.2 |
| 1942 | 2,364 | 425 | 18.0 |
| 1943 | 2,972 | 679 | 22.8 |
| 1944 | 3,440 | 990 | 28.8 |
| 1945 | 3,218 | 1,063 | 33.0 |
| 1946 | 2,312 | 770 | 33.3 |
| 1947 | 2,775 | 848 | 30.6 |
| 1948 | 3,075 | 910 | 29.6 |
| 1949 | 2,993 | 959 | 31.9 |
| 1950 | 3,118 | 818 | 26.2 |
| 1951 | 3,914 | 1,020 | 26.1 |
| 1952 | 4,301 | 1,220 | 28.4 |
| 1953 | 4,117 | 1,147 | 27.9 |
| 1954 | 3,881 | 853 | 22.0 |
| 1955 | 4,281 | 801 | 18.7 |
| 1956 | 4,760 | 1,013 | 21.3 |
| 1957 | 4,789 | 909 | 19.0 |
| 1958 | 4,791 | 1,034 | 21.6 |
| 1959 | 5,022 | 970 | 19.3 |
| 1960 | 5,264 | 909 | 17.3 |

a/ Trade of Canada, Dominion Bureau of Statistics.

b/ Canada Trade in Agricultural Products with the United Kingdom, the United States and all countries, Economics Division, Canada Department of Agriculture, June 1961.

TABLE XIV

Total Gross and Net Farm Income and Gross and Net Farm Income per Farm, Canada, 1935-61

| Year | Total gross income a/ | Total net income a/ | Gross income per farm | Net income per Farm b/ |
|---|---|---|---|---|
| | - thousand dollars - | | | |
| 1935-39 | 806,072 | 316,940 | 1,156 | 455 |
| 1940-44 | 1,454,374 | 784,807 | 2,170 | 1,172 |
| 1945-49 | 2,243,373 | 1,209,263 | 3,486 | 1,880 |
| 1950 | 2,551,457 | 1,219,757 | 4,059 | 1,940 |
| 1951 | 3,419,084 | 1,936,990 | 5,487 | 3,108 |
| 1952 | 3,500,239 | 1,919,439 | 5,706 | 3,129 |
| 1953 | 3,207,074 | 1,644,382 | 5,311 | 2,723 |
| 1954 | 2,604,447 | 1,025,272 | 4,383 | 1,726 |
| 1955 | 2,923,824 | 1,289,964 | 5,001 | 2,206 |
| 1956 | 3,217,837 | 1,458,135 | 5,596 | 2,536 |
| 1957 | 2,764,707 | 1,058,268 | 4,890 | 1,872 |
| 1958 | 3,148,877 | 1,353,062 | 5,666 | 2,434 |
| 1959 | 3,082,364 | 1,191,870 | 5,644 | 2,182 |
| 1960 | 3,227,324 | 1,319,604 | 6,015 | 2,459 |
| 1961 | 3,040,542 | 1,033,675 | 5,707 | 2,149 |

a/ Quarterly Bulletin of Agricultural Statistics, Dominion Bureau of Statistics.
(Note: Gross farm income is cash returns from sale of farm products, plus income in kind, supplementary payments and inventory changes.)

b/ Figures for No. of farms are census figures for census years and intercensual estimates for others.

TABLE XV(a)

Changes in Canadian Net Income from Farming between 1949 & 1961

| | Canada | Eastern Canada (Ont., Que., N.B., N.S., P.E.I.) | Western Canada (Man., Sask., Alta., B.C.) |
|---|---|---|---|
| Net Farm Income 1949 | $1,415,785,000 | $613,584,000 | $802,201,000 |
| Net Farm Income 1961 in current dollars | $1,033,675,000 | $565,268,000 | $468,407,000 |
| Percent change in 1961 net farm income from 1949 in current dollars | -27.0 | -7.8 | -41.6 |
| Index of prices of Commodities and services used by farmers including living costs 1949 | 191.7 | 193.9 | 189.5 |
| Index for 1961 | 258.3 | 260.5 | 256.0 |
| Percent increase in farm costs | 34.5 | 34.3 | 35.1 |
| Net farm income 1961 in 1949 dollars | $767,151,000 | $420,749,000 | $346,402,000 |
| Percent change in 1961 net farm income from 1949 in 1949 dollars | -45.8 | -31.4 | -56.8 |
| Number of farm operators 1949 | 663,000 | 358,000 | 305,000 |
| Number of farm operators 1961 | 432,000 | 212,000 | 219,000 |
| Decrease in farm operators | 34.8 or about 19,200 a year | 40.8 or about 12,000 a year | 28.2 or about 7,200 a year |
| Net farm income per farm operator 1949 | $2,135 | $1,714 | $2,630 |
| Net farm income per farm operator 1961 in current dollars | $2,393 | $2,666 | $2,139 |
| Percent change current dollars 1949-1961 | +12.1 | +55.5 | -18.7 |
| Net farm income per farm operator 1961 in 1949 dollars | $1,729 | $1,984 | $1,582 |
| Percent change 1949 dollars | -19.0 | +15.8 | -39.8 |

TABLE XV(D)

Changes in Canadian Realized* Net Income from Farming between 1949 & 1961

| | Canada | Eastern Canada (Ont., Que., N.B., N.S., P.E.I.) | Western Canada (Man., Sask., Alta., B.C.) |
|---|---|---|---|
| Realized net farm income 1949 | $1,513,860,000 | $618,795,000 | $895,065,000 |
| Realized net farm income 1961 in current dollars | $1,340,922,000 | $540,457,000 | $800,465,000 |
| Percent change in 1961 from 1949 in current dollars | -11.4 | -12.6 | -10.6 |
| Index of prices of commodities and services used by farmers including living costs 1949 | 191.7 | 193.9 | 189.5 |
| Index for 1961 | 258.3 | 260.5 | 256.0 |
| Percent increase in farm costs | 34.5 | 34.3 | 35.1 |
| Net realized farm income 1961 in 1949 dollars | $995,177,000 | $402,283,000 | $592,894,000 |
| Percent change 1961 in 1949 dollars | -34.3 | -35.0 | -33.8 |
| Number of farm operators 1949 | 663,000 | 358,000 | 305,000 |
| Number of farm operators 1961 | 432,000 | 212,000 | 219,000 |
| Net realized farm income per operator 1949 | 2,283 | 1,728 | 2,934 |
| Net realized farm income per operator in current dollars 1961 | 3,127 | 2,549 | 3,655 |
| Percent change current dollars 1949 -1961 | +37.0 | +47.5 | +24.6 |
| Net realized farm income per operator 1961 in 1949 dollars | 2,304 | 1,898 | 2,707 |
| Percent change in 1949 dollars | +0.9 | +11.0 | -7.7 |

Revised May 25, 1962.

* Realized net income is the net income eliminating effects of changes in farm inventory.

TABLE XVI

Gross Domestic Product at Factor Cost, 1926-60

| Year | Canada | Agriculture's contribution | Agriculture's share as a percentage of total |
|---|---|---|---|
| | - million dollars - | | - per cent - |
| 1926-29 | 5,353 | 850 | 15.9 |
| 1930-34 | 3,966 | 389 | 9.8 |
| 1935-39 | 4,534 | 488 | 10.8 |
| 1940 | 6,074 | 693 | 11.4 |
| 1941 | 7,424 | 680 | 9.2 |
| 1942 | 9,344 | 1,160 | 12.4 |
| 1943 | 10,041 | 961 | 9.6 |
| 1944 | 10,781 | 1,335 | 12.4 |
| 1945 | 10,804 | 1,160 | 10.7 |
| 1946 | 10,791 | 1,331 | 12.3 |
| 1947 | 11,857 | 1,422 | 12.0 |
| 1948 | 13,599 | 1,706 | 12.5 |
| 1949 | 14,[illegible]85 | 1,600 | 10.7 |
| 1950 | 16,458 | 1,716 | 10.4 |
| 1951 | 19,126 | 2,382 | 12.5 |
| 1952 | 21,344 | 2,421 | 11.4 |
| 1953 | 22,206 | 2,048 | 9.2 |
| 1954 | 22,213 | 1,482 | 6.7 |
| 1955 | 24,326 | 1,767 | 7.3 |
| 1956 | 27.189 | 1,973 | 7.3 |
| 1957 | 28,455 | 1,551 | 5.5 |
| 1958 | 29,318 | 1,729 | 5.9 |
| 1959 | 31,293 | 1,674 | 5.3 |
| 1960 | 32,146 | 1,763 | 5.5 |

Source: National Accounts, Income and Expenditure, Dominion Bureau of Statistics.

TABLE XVII

Preliminary Estimate of Farm Cash Income from Farming Operations, by Provinces (1), 1961

| Commodity | Prince Edward Island | Nova Scotia | New Brunswick | Quebec | Ontario | Manitoba | Saskat-chewan | Alberta | British Columbia | Canada |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | - thousand dollars- | | | | | | | |
| Wheat | - | - | - | - | 16,778 | 65,662 | 289,242 | 111,429 | 1,739 | 484,850 |
| Wheat, C.W.B. payments(2) | - | - | - | - | - | 14,543 | 76,441 | 31,346 | - | 122,330 |
| Oats | 438 | 49 | 494 | 2,834 | 3,926 | 3,057 | 3,547 | 9,019 | 599 | 23,963 |
| Oats, C.W.B. payments (2) | - | - | - | - | - | 2,634 | 3,264 | 3,030 | - | 8,928 |
| Barley | - | - | - | 29 | 498 | 9,995 | 20,031 | 31,144 | 902 | 62,599 |
| Barley, C.W.B. payments(2) | - | - | - | - | - | 366 | 782 | 874 | - | 2,022 |
| C.W.B. net cash advance payments(3) | - | - | - | - | - | -7,223 | -22,197 | -5,118 | - | -34,538 |
| Rye | - | - | - | - | 281 | 1,066 | 2,110 | 1,545 | - | 5,002 |
| Flaxseed | - | - | - | - | 432 | 12,603 | 22,070 | 13,961 | 198 | 49,264 |
| Potatoes | 5,928 | 620 | 6,683 | 6,694 | 12,959 | 534 | 258 | 2,361 | 2,725 | 38,752 |
| Fruits | 482 | 3,029 | 1,449 | 7,112 | 24,665 | - | - | - | 18,668 | 55,405 |
| Vegetables (4) | 232 | 1,528 | 870 | 17,281 | 46,885 | 1,207 | 478 | 1,150 | 7,045 | 76,676 |
| Tobacco | 12 | 15 | - | 5,399 | 97,660 | 1 | - | - | - | 103,087 |
| Other crops | 705 | 695 | 872 | 10,224 | 46,225 | 6,618 | 11,936 | 15,954 | 9,126 | 102,355 |
| Total crops | 7,797 | 5,936 | 10,368 | 49,573 | 250,309 | 111,063 | 407,962 | 216,695 | 41,002 | 1,100,705 |
| Cattle and calves | 4,741 | 7,558 | 5,813 | 64,628 | 209,592 | 52,435 | 107,735 | 158,444 | 21,534 | 632,480 |
| Hogs | 3,915 | 3,539 | 3,682 | 68,546 | 117,168 | 23,100 | 28,100 | 71,351 | 2,578 | 321,979 |
| Sheep and lambs | 195 | 369 | 343 | 1,492 | 3,038 | 579 | 1,140 | 3,858 | 692 | 11,706 |
| Dairy products | 5,043 | 12,747 | 12,195 | 179,541 | 188,363 | 27,433 | 30,434 | 41,617 | 36,605 | 533,978 |
| Poultry | 483 | 3,640 | 1,595 | 35,475 | 52,514 | 11,895 | 10,282 | 15,076 | 10,911 | 141,871 |
| Eggs | 1,435 | 8,301 | 2,896 | 21,308 | 65,322 | 9,241 | 6,936 | 12,290 | 13,798 | 141,527 |
| Other livestock and products | 127 | 668 | 219 | 2,106 | 7,938 | 6,013 | 5,153 | 8,097 | 5,072 | 35,393 |
| Total livestock & products | 15,939 | 36,822 | 26,743 | 373,096 | 643,935 | 130,396 | 189,780 | 310,733 | 91,190 | 1,818,934 |
| Forest and maple products | 470 | 2,941 | 5,020 | 22,321 | 5,725 | 376 | 313 | 407 | 1,285 | 38,858 |
| Deficiency payments:(5) | | | | | | | | | | |
| Eggs | 1 | 2 | - | 2 | 5 | 1 | - | 1 | 3 | 15 |
| Potatoes | - | - | 33 | - | - | - | - | - | - | 33 |

TABLE XVII Cont'd.

| Commodity | Rrince Edward Island | Nova Scotia | New Brunswick | Quebec | Ontario | Manitoba | Saskat- chewan | Alberta | British Columbia | Canada |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | - thousand dollars - | | | | | | | |
| Cash Income from Farm Products.... | 24,207 | 45,701 | 42,164 | 444,992 | 899,974 | 242,136 | 598,055 | 527,836 | 133,480 | 2,958,545 |
| Supplementary payments(6)......... | 390 | - | - | - | - | 3,414 | 23,627 | 8,233 | 102 | 35,766 |
| Total Cash Income........... | 24,597 | 45,701 | 42,164 | 444,992 | 899,974 | 245,550 | 621,682 | 536,069 | 133,582 | 2,994,311 |

(1) Excludes Newfoundland.
(2) Represents interim and final payments made by the Canadian Wheat Board direct to producers on crop delivered in previous years.
(3) Explanation of this item included in each of the quarterly reports for the years 1958 and 1959.
(4) Estimates of income from the sale of vegetables in all provinces except Ontario and British Columbia for the years 1957 to 1961 inclusive will not be strictly comparable with earlier years because of changes in methods of estimation. Comparability will be restored as soon as earlier estimates can be reworked by the new methods.
(5) Made under the authority of the Agricultural Stabilization Act.
(6) Payments made under the provisions of the Prairie Farm Assistance Act and the Western Grain Producers' Acreage Payment Plan. They also include payments made to P.E.I. potato growers in connection with losses sustained as a result of fusarium rot in the 1960 potato crop.
\- 500 dollars or less.

TABLE XVIII

Farm Credit Corporation

STATEMENT FOR THE PAST FIVE YEARS OF LOANS APPROVED AND PURPOSES FOR WHICH APPROVED (BY PROVINCES)

| Province | Fiscal Year | LOANS APPROVED Number | Average | Amount | PURPOSES FOR WHICH LOANS WERE APPROVED Land Purchase | Improvements | Pay-Land Secured Debt | Other Debts | Taxes | Livestock | Equipment | Sundry Purposes |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | $ | $ | % | % | % | % | % | % | % | % |
| BRITISH COLUMBIA | 1957-58 | 113 | 6,508 | 735,350 | 19.2 | 13.3 | 32.2 | 29.0 | .3 | 1.1 | 2.9 | 2.0 |
| | 1958-59 | 157 | 7,413 | 1,163,800 | 18.1 | 10.2 | 34.8 | 26.1 | 1.0 | 5.0 | 3.2 | 1.6 |
| | 1959-60 | 158 | 9,139 | 1,443,900 | 24.2 | 9.3 | 32.8 | 26.7 | .4 | 2.3 | 3.1 | 1.2 |
| | 1960-61 | 203 | 14,792 | 3,002,800 | 27.6 | 12.0 | 35.7 | 14.2 | .2 | 4.6 | 4.3 | 1.4 |
| | 1961-62 | 244 | 16,605 | 4,051,500 | 17.1 | 13.1 | 48.0 | 12.4 | .1 | 4.5 | 4.2 | .6 |
| ALBERTA | 1957-58 | 590 | 4,816 | 2,841,500 | 30.2 | 6.1 | 28.4 | 29.2 | 3.7 | .6 | .4 | 1.4 |
| | 1958-59 | 961 | 5,333 | 5,125,100 | 36.7 | 7.8 | 29.6 | 17.5 | 3.3 | 1.4 | 1.5 | 2.2 |
| | 1959-60 | 1421 | 6,351 | 9,024,800 | 31.5 | 7.6 | 33.4 | 17.8 | 2.5 | 2.0 | 3.3 | 1.9 |
| | 1960-61 | 1217 | 10,832 | 13,182,600 | 67.1 | 9.0 | 8.4 | 6.0 | .4 | 5.4 | 2.3 | 1.4 |
| | 1961-62 | 1518 | 12,153 | 18,447,600 | 76.2 | 9.6 | 5.6 | 1.0 | .1 | 6.0 | 1.0 | .5 |
| SASKATCHEWAN | 1957-58 | 1122 | 5,134 | 5,760,900 | 52.9 | 5.5 | 21.6 | 6.4 | 2.7 | .4 | 8.1 | 2.4 |
| | 1958-59 | 1510 | 5,739 | 8,665,550 | 50.6 | 5.1 | 26.2 | 6.0 | 3.2 | .6 | 6.0 | 2.3 |
| | 1959-60 | 1739 | 7,236 | 12,582,600 | 65.0 | 3.4 | 19.2 | 3.8 | 1.9 | .5 | 4.2 | 2.0 |
| | 1960-61 | 2008 | 9,469 | 19,014,550 | 81.5 | 1.9 | 10.6 | 2.6 | 1.0 | .6 | 1.4 | .4 |
| | 1961-62 | 1936 | 10,234 | 19,812,350 | 74.8 | 1.2 | 15.2 | 4.0 | 1.0 | .3 | .7 | 2.3 |
| MANITOBA | 1957-58 | 412 | 5,177 | 2,133,100 | 18.3 | 7.3 | 40.2 | 23.1 | 6.1 | .8 | 1.4 | 2.8 |
| | 1958-59 | 454 | 5,519 | 2,505,600 | 31.1 | 6.9 | 38.0 | 15.9 | 4.5 | .5 | .7 | 2.4 |
| | 1959-60 | 251 | 5,971 | 1,498,750 | 36.1 | 6.1 | 38.4 | 11.6 | 4.2 | .6 | 1.3 | 1.7 |
| | 1960-61 | 317 | 10,982 | 3,481,300 | 57.9 | 5.2 | 26.5 | 6.6 | 1.4 | 1.5 | .6 | .3 |
| | 1961-62 | 429 | 11,711 | 5,024,000 | 63.6 | 5.3 | 20.4 | 6.5 | .8 | 2.3 | .9 | .2 |
| ONTARIO | 1957-58 | 1084 | 7,362 | 7,980,500 | 13.9 | 6.5 | 47.5 | 26.0 | .9 | 2.5 | 1.0 | 1.7 |
| | 1958-59 | 1299 | 8,239 | 10,702,350 | 13.9 | 9.1 | 52.9 | 19.0 | .7 | 2.0 | 1.0 | 1.4 |
| | 1959-60 | 1384 | 9,512 | 13,164,750 | 15.3 | 9.1 | 49.6 | 20.6 | .6 | 2.2 | 1.3 | 1.3 |
| | 1960-61 | 1590 | 12,045 | 19,151,700 | 28.5 | 6.7 | 45.6 | 14.9 | .2 | 2.2 | .7 | 1.2 |
| | 1961-62 | 1383 | 12,368 | 17,104,400 | 35.8 | 8.1 | 38.9 | 11.0 | .2 | 3.5 | 1.3 | 1.2 |

TABLE XVIII Cont'd.

Farm Credit Corporation

STATEMENT FOR THE PAST FIVE YEARS OF LOANS APPROVED AND PURPOSES FOR WHICH APPROVED (BY PROVINCES)

| Province | Fiscal Year | LOANS APPROVED Number | Average | Amount | PURPOSES FOR WHICH LOANS WERE APPROVED Land Purchase | Improvements | Pay-Land Secured Debt | Other Debts | Taxes | Livestock | Equipment | Sundry Purposes |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | $ | $ | % | % | % | % | % | % | % | % |
| QUEBEC | 1957-58 | 118 | 5,655 | 667,250 | 11.3 | 13.2 | 44.9 | 16.4 | .4 | 2.9 | 10.7 | .2 |
| | 1958-59 | 154 | 5,790 | 891,650 | 26.0 | 14.3 | 37.2 | 11.0 | .1 | 4.1 | 7.0 | .3 |
| | 1959-60 | 179 | 7,187 | 1,286,450 | 19.8 | 11.4 | 46.0 | 12.5 | .2 | 2.3 | 6.8 | 1.0 |
| | 1960-61 | 106 | 15,533 | 1,646,550 | 15.8 | 6.6 | 48.1 | 26.6 | .1 | 1.3 | 1.2 | .3 |
| | 1961-62 | 109 | 16,386 | 1,786,100 | 18.7 | 9.8 | 42.9 | 24.1 | .1 | 2.5 | 1.7 | .2 |
| NEW BRUNSWICK | 1957-58 | 67 | 4,853 | 325,150 | 14.9 | 11.2 | 34.8 | 32.0 | 2.4 | .7 | 2.4 | 1.6 |
| | 1958-59 | 71 | 4,277 | 303,650 | 2.4 | 22.4 | 33.3 | 32.5 | 2.8 | 1.9 | 3.0 | 1.7 |
| | 1959-60 | 39 | 6,419 | 250,350 | 24.0 | 21.9 | 17.0 | 27.4 | 1.4 | 2.9 | 3.9 | 1.5 |
| | 1960-61 | 46 | 7,871 | 362,050 | 13.9 | 21.4 | 27.5 | 25.9 | 2.3 | 5.6 | 2.3 | 1.1 |
| | 1961-62 | 111 | 9,997 | 1,109,700 | 19.7 | 24.6 | 24.2 | 19.3 | 1.9 | 4.2 | 5.1 | 1.0 |
| NOVA SCOTIA | 1957-58 | 54 | 5,380 | 290,500 | 11.5 | 11.9 | 32.9 | 37.3 | 1.5 | 1.5 | 2.4 | 1.0 |
| | 1958-59 | 49 | 4,479 | 219,450 | 15.3 | 23.8 | 31.0 | 18.7 | 2.0 | 4.9 | 2.9 | 1.4 |
| | 1959-60 | 43 | 6,063 | 260,700 | 17.8 | 27.0 | 26.1 | 20.3 | 1.5 | 3.8 | 2.6 | .9 |
| | 1960-61 | 20 | 13,225 | 264,500 | 16.0 | 28.3 | 27.2 | 19.1 | .9 | 4.4 | 1.4 | .7 |
| | 1961-62 | 41 | 12,193 | 499,900 | 24.0 | 21.9 | 25.5 | 16.6 | 2.0 | 3.4 | 5.7 | .9 |
| PR. ED. ISLAND | 1957-58 | 142 | 3,832 | 544,200 | 35.3 | 5.0 | 26.1 | 29.2 | - | 1.3 | 1.5 | 1.6 |
| | 1958-59 | 150 | 3,785 | 567,800 | 32.3 | 7.1 | 34.5 | 22.0 | - | 1.9 | 1.0 | 1.2 |
| | 1959-60 | 125 | 4,152 | 518,950 | 36.8 | 5.6 | 31.0 | 22.4 | - | 1.7 | 1.3 | 1.2 |
| | 1960-61 | 90 | 6,644 | 598,000 | 27.3 | 13.6 | 23.9 | 22.2 | - | 8.2 | 4.1 | .7 |
| | 1961-62 | 113 | 6,488 | 733,200 | 28.9 | 9.9 | 27.9 | 23.6 | - | 5.5 | 3.2 | 1.0 |
| NEWFOUNDLAND | 1961-62 | 1 | 6,100 | 6,100 | | 98.4 | | | | | | 1.6 |
| NATIONAL | 1957-58 | 3702 | 5,748 | 21,278,450 | 27.7 | 6.8 | 35.7 | 20.9 | 2.3 | 1.4 | 3.3 | 1.9 |
| | 1958-59 | 4805 | 6,273 | 30,144,950 | 30.5 | 7.9 | 36.2 | 15.0 | 2.2 | 1.6 | 2.9 | 1.7 |
| | 1959-60 | 5339 | 7,498 | 40,031,250 | 36.7 | 6.9 | 34.5 | 14.2 | 1.6 | 1.6 | 2.9 | 1.6 |
| | 1960-61 | 5597 | 10,846 | 60,704,050 | 53.8 | 6.1 | 25.4 | 9.3 | .6 | 2.5 | 1.5 | .8 |
| | 1961-62 | 5885 | 11,652 | 68,574,850 | 57.8 | 7.1 | 22.0 | 6.7 | .5 | 3.2 | 1.3 | 1.4 |

TABLE XIX

Farm Improvement Loans

LOANS MADE AND CLAIMS PAID 1945-1961

| | Loans Made | | Average | Claims | |
|---|---|---|---|---|---|
| Year | No. | Amount | Loan | No. | Amount |
| 1945* | 4,311 | $ 3,381,742.02 | 784 | | |
| 1946 | 13,030 | 9,880,565.74 | 758 | | |
| 1947 | 22,046 | 18,160,821.47 | 824 | | |
| 1948 | 30,431 | 29,331,130.70 | 964 | | |
| 1949 | 44,775 | 45,879,080.35 | 1,025 | 13 | 10,264.18 |
| 1950 | 58,969 | 63,421,363.06 | 1,075 | 23 | 9,466.28 |
| 1951 | 75,063 | 85,326,227.02 | 1,137 | 18 | 6,499.84 |
| 1952 | 83,315 | 98,259,149.75 | 1,180 | 25 | 11,662.50 |
| 1953 | 83,962 | 97,892,760.05 | 1,166 | 95 | 52,877.85 |
| 1954 | 58,572 | 62,073,806.46 | 1,060 | 108 | 59,043.37 |
| 1955 | 60,755 | 69,105,520.76 | 1,137 | 229 | 135,250.75 |
| 1956 | 60,180 | 70,819,312.01 | 1,177 | 237 | 152,247.34 |
| 1957 | 57,988 | 69,427,873.94 | 1,199 | 257 | 180,822.36 |
| 1958 | 70,278 | 90,539,743.98 | 1,288 | 277 | 217,638.28 |
| 1959 | 71,143 | 98,427,519.16 | 1,384 | 261 | 189,415.45 |
| 1960 | 68,041 | 101,855,746.37 | 1,497 | 209 | 167,406.05 |
| 1961 | 70,615 | 108,147,164.18 | 1,531 | 232 | 163,601.93 |
| TOTAL | 933,474 | $1,121,929,527.02 | 1,202 | 1,984 | $1,356,196.18 |

* 10 months only.

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TABLE XX

Farm Improvement Loans

REPAYMENT OF LOANS BY LENDING PERIODS

| | Amount borrowed | Amount repaid | Per cent repaid of amount borrowed |
|---|---|---|---|
| PERIOD 1<br>March 1, 1945 to February 28, 1948 | 33,605,576.40 | 33,605,127.30 | 99.99 |
| PERIOD 2<br>March 1, 1948 to February 28, 1951 | 142,372,774.41 | 142,312,993.52 | 99.95 |
| PERIOD 3<br>March 1, 1951 to March 31, 1953 | 190,449,006.46 | 190,142,111.53 | 99.83 |
| PERIOD 4<br>April 1, 1953 to March 31, 1956 | 222,723,433.67 | 221,387,295.08 | 99.40 |
| PERIOD 5<br>April 1, 1956 to March 31, 1959 | 239,064,072.24 | 225,161,686.48 | 94.18 |
| TOTALS | $ 828,214,860.18 | $812,609,213.91 | |

TABLE XXI

Farm Improvement Loans

SUMMARY OF LOANS CLASSIFIED BY PURPOSES

| | 1960 | | Total 1945-1961 | |
|---|---|---|---|---|
| | No. | Amount | No. | Amount |
| Purchase of Agricultural Implements................. | 52,811 | $ 79,942,352.21 | 779,482 | $ 943,550,919.32 |
| Construction, Repair or Alteration of or Making Additions to any Building or Structure on a Farm................. | 5,196 | 10,064,429.75 | 59,341 | 90,606,742.95 |
| Purchase of Livestock........ | 7,744 | 9,624,918.96 | 62,416 | 64,054,750.16 |
| Works for the Improvement or Development of a Farm Designated in the Regulations..,. | 1,558 | 1,312,991.12 | 24,240 | 16,753,231.14 |
| Irrigation System............ | 152 | 277,889.37 | 829 | 1,471,781.85 |
| Purchase or Installation of Agricultural Equipment of Farm Electrical System and the Alteration and Improvement of a Farm Electrical System.... | 404 | 470,995.82 | 5,539 | 4,192,743.83 |
| Erection or Construction of Fencing or Works for Drainage on a Farm............... | 176 | 162,169.14 | 1,627 | 1,299,357.77 |
| TOTAL | 68,041 | $101,855,746.37 | 933,474 | $1,121,929,527.02 |

- - - - - - - - - -

TABLE XXII

Farm Improvement Loans

SUMMARY OF LOANS CLASSIFIED BY PROVINCES

| | 1960 | | Total 1945-1961 | |
|---|---|---|---|---|
| | No. | Amount | No. | Amount |
| Saskatchewan............ | 19,242 | $ 28,222,358.88 | 262,945 | $ 315,237,507.49 |
| Alberta................. | 16,717 | 24,637,398.18 | 250,705 | 295,172,191.24 |
| Ontario ................ | 11,881 | 18,737,174.00 | 147,405 | 186,887,328.84 |
| Quebec.................. | 8,450 | 13,019,863.27 | 101,653 | 130,679,421.28 |
| Manitoba................ | 7,519 | 11,010,951.75 | 110,030 | 125,672,965.29 |
| British Columbia......... | 1,758 | 2,865,655.93 | 26,842 | 33,167,346.08 |
| Prince Edward Island..... | 1,127 | 1,407,752.53 | 14,269 | 14,493,851.94 |
| Nova Scotia.............. | 644 | 858,136.59 | 10,345 | 10,599,893.88 |
| New Brunswick............ | 654 | 1,022,908.24 | 8,791 | 10,351,364.67 |
| Newfoundland............. | 49 | 73,567.00 | 489 | 667,656.33 |
| TOTAL | 68,041 | $101,855,746.37 | 933,474 | $1,121,929,527.02 |

TABLE XXIII

Veteran's Land Act

SPECIFIED STATISTICAL DATA - FULL TIME FARMING
(REPAYABLE DEBT)

| | Fiscal Year 1961-62 | Cumulated March 31, 1962 |
|---|---|---|
| 1. No. of applicants qualified | 304 | 47,630 |
| 2. No. of qualification certificates cancelled | 131 | 15,783 |
| 3. No. of applications for financial assistance | 312 | 38,989 |
| 4. No. of applications for finanancial assistance declined or withdrawn | 27 | 8,827 |
| 5. No. of loans approved | 288 | 29,484 |
| 6. Amount disbursed | | |
| (a) Land & existing Permanent Improvements Permanent Improvements to be effected | $9,596,250 | 148,352,335 |
| (b) Livestock and farm equipment | 2,168,361 | 40,111,377 |
| (c) Payment of debts | 462,638 | 1,224,660 |
| 7. Total acreage purchased | 383,806 | 6,627,359 |
| 8. Appraised value of farms | $8,969,539 | 140,961,745 |
| 9. Average value per acre including existing P.I. | $ 23.37 | 21.27 |
| 10. No. of veterans on crop share agreement | - | 845 |
| 11. Total number of agreements for sale and mortgages | - | 16,978 |
| 12. Total outstanding on agreements for sale and mortgages | - | 58,180,309 |
| 13. No. of quit claim deeds | 11 | 1,415 |
| 14. No. of accts. rescinded, Provincial Advisory Board | 3 | 131 |
| 15. Losses on resale of reverted properties | $ 33,296 | 917,300 |
| 16. No. of veterans acquired title | | |
| (a) Before grant earned | 107 | 2,564 |
| (b) After grant earned | 847 | 6,699 |

TABLE XXIV

Veteran's Land Act

SPECIFIED STATISTICAL DATA
(NON-REPAYABLE APPROVALS)

| | | Fiscal Year 1961-62 | Cumulated March 31, 1962 |
|---|---|---|---|
| 1. | No. of applicants qualified | 62 | 8,029 |
| 2. | No. of qualification certificates cancelled | 8 | 2,409 |
| 3. | No. of applications for financial assistance | 38 | 6,144 |
| 4. | No. of applications for financial assistance declined or withdrawn | 1 | 612 |
| 5. | Amount disbursed | | |
| | (a) Improvements | $ 79,493 | 5,669,043 |
| | (b) Stock & equipment | $ 26,992 | 6,153,055 |
| 6. | No. of grants approved | 38 | 5,406 |
| 7. | No. terminated before grant earned | 28 | 801 |
| 8. | Total loss upon termination | $ 2,135 | 377,924 |
| 9. | No. of grants earned | 181 | 3,750 |
| 10. | No. still under VLA, grant not earned | - | 855 |

APPENDIX A

Revised July 1, 1961

CANADIAN FEDERATION OF AGRICULTURE

LIST OF AFFILIATED ASSOCIATES

OF C.F.A. MEMBER BODIES

PRINCE EDWARD ISLAND FEDERATION OF AGRICULTURE

3 County Federations of Agriculture; Dairyman's Association; Swine Breeders' Association; Sheep Breeders' Association; Potato Growers' Association; Central Farmers' Institutes; Women's Institutes; Credit Union League Co-ops; Fox Breeders' Association; Approved Flock Association; Milk and Cream Producers' Association; Co-op Union Junior Farmers'; Prod. Co-op; Farm Forum; Artificial Breeders Association; Central Farmers' Co-operative; Summerside Co-operative Assoc.; P.E.I. Mutual Fire Insurance Co.; Co-op Union of P.E.I.

NOVA SCOTIA FEDERATION OF AGRICULTURE

18 County Federations of Agriculture; N.S. Co-op Abattoir; N.S. Milk and Cream Producers Assoc. (14 local associations); N.S. Artificial Breeders Co-op; Sheep Breeders; Hog Marketing Bd; Wool Marketing Bd; Livestock Council; Nova Scotia Farm Forums.

NEW BRUNSWICK FEDERATION OF AGRICULTURE

10 District Federations of Agriculture; N.B. Fruit Growers' Assoc; N.B. Hog Marketing Board; N.B. Cheese Board; N.S. Cream Producers; N.B. Milk

Producers; N.B. Poultry Producers; N.B. Livestock Council.

MARITIME FEDERATION OF AGRICULTURE

Prince Edward Island Federation of Agriculture; Nova Scotia Federation of Agriculture; New Brunswick Federation of Agriculture; Maritime Co-operative Services Limited.

L'UNION CATHOLIQUE des CULTIVATEURS

688 locals; 21 District Federations; La Federation des Syndicats des Producteurs de Lait de Quebec; La Federation des Syndicats Maraichers de Quebec (Cannery Crop Growers).

CO-OPERATIVE FEDEREE de QUEBEC

A federation of the Co-operative Association in the Province of Quebec, with a directorate drawn from 18 districts.

QUEBEC FARMERS' ASSOCIATION

The Association of English-speaking farmers in the Province of Quebec. Directorate drawn from 5 zones in the Province.

ONTARIO FEDERATION OF AGRICULTURE

46 County Federations of Agriculture; The following Farm Commodity Marketing Boards and Associations - Bean Growers Marketing Board; Beef Cattle Producers; Bee Keepers' Association; Berry Growers'

Marketing Board; Ontario Broiler Growers' Association; Cheese Producers' Marketing Board; Commercial Corn Growers' Association; Concentrated Milk Producers' Association; Cream Producers' Marketing Board; Flue-cured Tobacco Marketing Board; Fruit and Vegetable Growers' Association; Grape Growers' Marketing Board; Hog Producers' Association; Potato Growers' Association; Poultry Producers' Association; Seed Corn Marketing Board; Soyabean Growers' Marketing Board; Sugar Beet Growers' Marketing Board; Tender Fruit Growers' Marketing Board; Turkey Association; Vegetable Growers' Marketing Board; Wheat Producers' Marketing Board; Whole Milk Producers' League; Ontario Poultry Council. Co-operative Medical Services Federation of Ontario; First Co-operative Packers of Ontario Ltd.; United Co-operatives of Ontario; United Dairy and Poultry Co-operative; Federated Women's Institutes of Ontario; Junior Farmers' Assoc. of Ontario; L'Union Catholiques des Fermieros de La Province de L'Ontario; L'Union des Cultivateurs Franco-Ontariens; Ontario Association of Agricultural Societies; Ontario Plowmen's Assoc; Ontario Soil and Crop Improvement Association.

MANITOBA FEDERATION OF AGRICULTURE

7 district Federations of Agriculture; Manitoba Pool Elevators, which includes 225 Local Associations; United Grain Growers, which includes over 75 Local Associations.

SASKATCHEWAN FEDERATION OF AGRICULTURE

Saskatchewan Wheat Pool, membership of 85, 000, 1,260 elevators and a directorate drawn from 16 districts; Saskatchewan Farmers Union; Locals throughout the province, with a directorate drawn from 17 local districts; Co-operative Union of Saskatchewan; Saskatchewan Association of Rural Municipalities; Saskatchewan Co-operative Creameries Association Ltd., Saskatchewan Forage Crop Growers Association, Saskatchewan Poultry Association.

ALBERTA FEDERATION OF AGRICULTURE

Total of 35 member associations including: Alberta Farmers' Union with its locals throughout the province; Alberta Wheat Pool, with its local elevators throughout the province; Alberta Assoc. of Municipal Districts, and the following Commodity Marketing Associations, co-operatives, and Producers Associations: Alta. Hatchery Egg Producers'; Honey Prod. Co-op; Livestock Co-op Ltd.; Poultry Fed.; Poultry Marketers Ltd.; Prov. Milk and Inspected Cream Prod. Assoc.; Swine Breeders Assoc.; Sugar Beet Growers; Turkey Assoc.; Blind-man Valley Co-op; Bow Slope Shipping Assoc.; Bow Valley Livestock Feeder; Buffalo Lake Farmers' Co-op Marketing Assoc.; Central Alta. Dairy Pool; Coronation Livestock Co-op; Grande Prairie Co-op Livestock Marketing Assoc; Lethbridge Central Feeders Assoc.; Mountain View Co-op Livestock Marketing Assoc.; Northern Alta. Dairy Pool; Peace River Co-op; Livestock Marketing Assoc.; Pembina District Livestock Co-op; Pembina U.F.A.

Co-op; Pincher Creek Co-op; Panoka Co-op Livestock Assoc.; Raymond-Magrath Feeders Assoc.; South Slope Livestock Feeders Assoc.; Southern Alta. Co-op; Southern Alta. Sheep Breeders'; United Farmers' of Alta. Co-op; United Grain Growers Ltd.; Vauxhall Farmers' Co-op; Vegreville Livestock Shipping Assoc.

BRITISH COLUMBIA FEDERATION OF AGRICULTURE

Armstrong Co-op Egg & Poultry Assoc.; Armstrong Cheese Co-op; B.C. Artificial Insemination Centre; B.C. Baby Chick Assoc.; B.C. Beef Cattle Growers; B.C. Blueberry Co-op; B.C. Bulb Growers Fed.; B.C. Certified Seed Potato Growers; B.C. Coast Vegetable Marketing Brd.; B.C. Forage Crop Dehydrators Assoc.; B.C. Fruit Bd.; B.C. Greenhouse Assoc.; B.C. Interior Veg. Marketing Bd.; B.C. Nurserymen's Assoc.; B.C. Sheep Breeders Assoc.; B.C. Swine Breeders Assoc.; B.C. Turkey Assoc.; B.C. Women's Institutes; Colebrook Potato Growers; Columbia Potato Growers; Cowicher Creamery Assoc.; East Chilliwack Fruit Growers' Co-op; Fraser Valley Milk Prod.; Fraser Valley Mushroom Growers Co-op; Georgia Potato Growers; Island Farms Dairies Co-op; Island Vegetable Co-op; Langley Poultry Assoc.; Lower Vancouver Island Poultry Prod.; Mainland Dairyman's Assoc.; Maple Ridge Hot House Growers Assoc.; Pacific Co-op Union; Richmond Milk Producers Co-op; Saanich Fruit Growers; Saanich Jersey Cattle Club; Shuswap-Okanagan Dairy Industries Co-op; Surrey Co-op; United Grain Growers; Vancouver Island Assoc. of Nurserymen; Vancouver Island Bulb Growers;

Raymond-Magrath Feeders Assoc.; South Slope Livestock Feeders Assoc.; Southern Alta. Co-op; Southern Alta. Sheep Breeders'; United Farmers' of Alta. Co-op; United Grain Growers Ltd.; Vauxhall Farmers' Co-op; Vegreville Livestock Shipping Assoc.

BRITISH COLUMBIA FEDERATION OF AGRICULTURE

Armstrong Co-op Egg & Poultry Assoc.; Armstrong Cheese

Baby Chick Assoc.; B.C. Beef Cattle Growers; B.C. Blueberry Co-op; B.C. Bulb Growers Fed.; B.C. Certified Seed Potato Growers; B.C. Coast Vegetable

Sheep Breeders Assoc.; B.C. Swine Breeders Assoc.;

Potato Growers; Columbia Potato Growers; Cowichan

Co-op; Georgia Potato Growers; Island Farms Dairies Co-op; Island Vegetable Co-op; Langley Poultry Assoc.; Lower Vancouver Island Poultry Prod., Mainland Dairymen's Assoc.; Maple Ridge Hot House Growers Assoc.; Pacific Co-op Union; Richmond Milk Producers Co-op; Saanich Fruit Growers; Saanich Jersey Cattle Club; Shuswap-Okanagan Dairy Industries Co-op; Surrey

of Nurserymen; Vancouver Island Bulb Growers;

Vancouver Island Dairymen's Assoc.; Vancouver Island Greenhouse Operators Assoc.; Vancouver Island Poultry Co-op; Vernon Fruit Union; Agricultural Union of Chilliwack, B.C. Fruit Growers Assoc. & the following farmers institutes: Balfour, Boswell, Burton, Cariboo, Comax, Coombs, Cowichan, Deadman's Creek, Deep Creek, Delta, Eagle Bay, Fort Frazer, Grand Forks, Jaffray, Kitsumkalum, Malakwa, Maple Ridge, Martin Prairie, Mud River and Beaverly, Mechako, Pitt Meadows, Port Kells, Quick Revelstoke, Salmon Arm, Shawnigan-Cobble Hill, South Saanich, Vinsulla, Wistaria, Windermere, Salmon River, and Prince George.

INTERPROVINCIAL MEMBERS

UNITED GRAIN GROWERS

While having affiliation with each of the three provincial Federations of Agriculture in Alberta, British Columbia and Manitoba, they also maintain direct membership as an interprovincial marketing association with the C.F.A. Their membership in the prairie provinces consist of more than 50,000 co-operative members, and a total of more than 800 local elevators.

NATIONAL MEMBERS

DAIRY FARMERS OF CANADA

Member association, include Dairy Breed Association, Milk, Cream, Cheese, and other dairy product associations; Co-operative Creameries and dairies; and Producer Bargaining groups and marketing Boards in most provinces across Canada.

Alta. Dairymen's Assoc.; Alberta Provincial Milk and Inspected Cream Prod.; Ashern Creamery Assoc.; Bothwell Co-op Dairy Society; Brandon Milk Producers; Canadian Ayrshire Breeders; Canadian Guernsey Breeders; Canadian Jersey Cattle Club; Central Alta. Dairy Pool; Co-op Federee de Quebec; Forest Co-op Creamery; Fraser Valley Milk Prod. Assoc.; Holstein-Friesien Assoc. of Canada; L'Union Catholique de Cultivateurs; Manitoba Dairy & Poultry Co-op; Man. Dairy Assoc.; Montreal Milk Prod. Assoc.; N.B. Cream Prod. Marketing Board; N.B. Milk Prod. Assoc.; Northern Alta. Dairy Pool; North Star Co-op Creamery; N.S. Mik and Cream Prod.; Ont. Cheese Prod. Marketing Bd.; Ont. Concentrated Milk Prod. Assoc.; Ont. Cream Prod. Marketing Board; Ont. Fed. of Agriculture; Ont. Whole Milk Prod. League; Portage Milk Prod. Assoc.; The P.E.I. Dairymen's Assoc.; Que. Carnation Milk Prod. Assoc.; Riverton Co-op Creamery; Sask. Co-op Creamery; Sask. Dairy Assoc.; The Shusway-Okanagan Dairy Ind. Co-op; Toronto Milk Prod.; United Dairy & Poultry Co-op; United Milk Prod. Assoc. of The Province of Quebec; Villa Nova Milk Prod. Co-op; Winkler Co-op Creamery; Winnipeg District Milk Prod.

THE CANADIAN HORTICULTURAL COUNCIL

A national organization made up of 31 provincial associations representing fruit and vegetable, honey, mushroom and nursery stock producers plus 8 national associations representing produce growers, processors, wholesalers, suppliers, and the florist industry. There

are 8 Provincial Departments of Agriculture and support is also drawn from 37 Associate and Contributing members.

## APPENDIX B

## PROVINCIAL GOVERNMENT FARM CREDIT POLICY

### New Brunswick, Farm Credit Summary

| | | |
|---|---|---|
| 1. | Date enacted: | 1912 |
| 2. | Title: | Farm Settlement Board |
| 3. | Maximum Loan: | $7,500.00 (1 person);<br>$11,250.00 (2 or more persons as partnership);<br>$2,500.00 (livestock and farm machinery loan);<br>75% of appraised value of real estate;<br>50% of appraised value of livestock and farm machinery. |
| 4. | Security: | Deed to real estate:<br>Chattel Mortgage on livestock and farm machinery. |
| 5. | Repayment and Interest Rates: | 15 years for real estate at 3% or over;<br>15 years and up to 30 years at 5%;<br>5 years for livestock and farm machinery at 4%;<br>over 5 years and up to 10 years at 5%. |
| 6. | Restrictions: | (a) age - 21 to 50 years;<br>(b) experience - 2 years farm experience;<br>(c) residence - Canadian or immigrant (immigrants must have 1/3 the purchase price of real estate);<br>(d) supervision - Annual report of farm operation;<br>(e) other - farming must be main occupation. |
| 7. | Purpose: | Purchase of farm real estate either for settlement on farm or for additional land by full-time farmers. |
| 8. | Admin. & obtaining Funds: | Farm Settlement Board (3 members);<br>Trust Fund - from Provincial government. |

### Newfoundland, Farm Credit Summary

| | | |
|---|---|---|
| 1. | Date Enacted: | 1953 |
| 2. | Title: | Farm Development Loan |
| 3. | Maximum Loan: | $3,500 or 75% of appraised value of security offered. |
| 4. | Security: | Mortgage. |
| 5. | Repayment: | 5 yrs. for L/S;<br>12 yrs. for improvement to land. |
| 6. | Interest rate: | 3½%. |
| 7. | Restrictions: | (a) age - ---------<br>(b) experience - ----------<br>(c) residence - ----------<br>(d) re assets - ----------- |

7. Restrictions (cont'd): (e) supervision - Annual report of property value, general condition of farm and how borrower is carrying out agreement on farm plan;

(f) other - ----- ---.

8. Purpose: Developing the farm.

9. Admin. & obtaining funds: Farm Development Loan Board; Government supplies the money.

Prince Edward Island, Farm Credit Summary

1. Date Enacted: 1959

2. Title: Assistance to Establish Young Farmers.

3. Maximum Loan: $10,000 or 85% of appraised value of security.

4. Security: Real estate or chattel mortgage, life insurance policy, or any other.

5. Repayment: 25 years 1st 3 graduated upward to give low first and 2nd payment.

6. Interest Rate: Set by Lt. Gov.-in-Council.

7. Restrictions: (a) age - 21 to 50 years;

(b) experience - 2 years in farming;

(c) residence - 2 years in Canada;

(d) re assets - Progress reports. Money to be spent as stated at time of loan. Enabling legislation for supervision.

(e) other - Intends to farm full-time.

8. Purpose: Land and chattel purchase, debt consolidation, real estate improvement.

9. Admin. & obtaining funds: P.E.I. Farm Establishment Board (3 members); Obtains loans from bank, guaranteed by Prov. Government; Not to exceed $2,000,000 in total

Nova Scotia, Farm Credit Summary

1. Date Enacted: 1932

2. Title: Originally N.S. Miners' Land Settlement Act
Now: The Agriculture & Marketing Act.

3. Maximum Loan: $30,000 (1 person)
$50,000 (2 or more persons)
75% of appraised value of real estate plus
50% appraised value of livestock.

4. Security: Chattel mortgage. Agreement of sale on land.

5. Repayment: 25 years; (up to 25 years).

6. Interest Rate: 5%.

7. Restrictions: (a) age - 21 to 55 years. For father and son partnership 19-65 years;

(b) experience - farm experience;

(c) residence - Immigrants must have 1/3 the purchase price;

(d) re assets - ---------

(e) supervision - ---------

(f) other - No loan to farm owners.

8. Purpose: To purchase real estate and stock and equipment only if a loan has been granted to purchase real estate.

9. Admin. & obtaining Funds: N.S. Land Settlement Board. Obtains grants from provincial government.

Alberta, Farm Credit Summary

1. Date Enacted: 1957

2. Title: Farm Purchase Credit Act.

3. Maximum Loan: $10,000

4. Security: Down payment of 20%.

5. Repayment: 20 years or 66th birthday.

6. Interest Rate: 5% (4½% to govt., ½% for life ins.)

7. Restrictions: (a) age - 21 to 55 years;

(b) experience - 3 years;

(c) residence - Canadian or British subject;

(d) re assets - Max. value of land owned and to be purchased not more than $30,000;

(e) supervision - Counselling service available through Ag. Reps.

(f) other - Must have equipment to work the land.

8. Purpose:- Purchase land. No refinancing debts.

9. Admin. & obtaining funds: Through local "County Boards";
Govt. supplies the money;
County guarantees 10%;
Govt. guarantees 90%;
Vendor of land carries 30% under guaranteed contract.

Saskatchewan, Farm Credit Summary

1. Date Enacted: March 31, 1959

2. Title: Family Farm Credit Act.

3. Maximum Loan: $25,000.

4. Security: Land; chattels under certain conditions.

5. Repayment: 30 years; shorter if over 40 years of Age.

6. Interest Rate: 6½%, incl. insurance.

7. Restrictions: (a) age - 21-40, if over 40, shorter term;

(b) experience - farming experience;

(c) residence - Saskatchewan residence 3 years;

(d) re assets - Net $25,000. Loan up to 80% of production value;

(e) supervision - Counselling service available: Compulsory if in default.

(f) other - Must have the use of the necessary equipment to work the farm.

8. Purpose: Developing an economic farm unit - loan only for this.

9. Admin., & obtaining funds: "Co-op. Trust Co."; Sell securities backed by govt. paying 4½%; Govt. partially guarantees loans.

Manitoba, Farm Credit Summary

1. Date Enacted: November 7th, 1958.

2. Title: Agricultural Credit Act.

3. Maximum Loan: $25,000.

4. Security: 1st mortgage on land, chattels under certain conditions.

5. Repayment: up to 30 years.

6. Interest Rate: Flexible - begins at 4% for young farmers, 5½% for others.

7. Restrictions: (a) age - 21-31 for young farmers; 31-60 for others;

(b) experience - farming 3 of last 5 years;

(c) residence - Manitoba resident last 3 years;

(d) re assets - Loan up to 65% of value of security;

(e) supervision - Supervise expenditure and collection of loan;

(f) other - Farming main occupation.

8. Purpose: Refinancing debts, purchase land, livestock, machinery, equipment, building, etc. Developing and perpetuating economic family farm unit.

9. Admin. & obtaining funds: "Manitoba Agriculture Credit Corporation"; Govt. supplies the money.

Quebec, Farm Credit Summary - Regular Loan

1. Date Enacted: Revised 1961.
2. Title: Quebec Farm Credit Act - Regular Loan.
3. Maximum Loan: $15,000 or 80% of appraised value of security.
4. Security: First mortgage.
5. Repayment: 39½ years. Semi-annual: $20 for every $1,000 borrowed.
6. Interest rate: 2½%.
7. Restrictions:
   (a) age - --------;
   (b) experience - farm training;
   (c) residence - on the farm;
   (d) re assets - --------;
   (e) supervision - --------;
   (f) other - farming main occupation.
8. Purpose: Purchase and/or improvement of real estate, consolidation debts, repairs, buildings, etc.
9. Admin. & obtaining funds: Quebec Farm Credit Bureau. Prov. Govt. purchases securities issued by the Bureau. Also makes short term loans to the Bureau. Also reimburses losses.

Quebec, Farm Credit Summary - Establishment Loan

1. Date enacted: Revised 1961.
2. Title: Quebec Farm Credit Act - Establishment Loan.
3. Maximum Loan: $15,000 or 90% of appraised value of security.
4. Security: First mortgage. Life Insurance obligatory.
5. Repayment: 39½ years. Semi-annual: $20 per $1,000 borrowed. Special rebate of 1/3 or of $3,000 after 10 years from establishment.
6. Interest rate: 2½%.
7. Restrictions:
   (a) age - 21 to 40 years;
   (b) experience - -------;
   (c) residence - on the farm;
   (d) re assets - --------;
   (e) supervision - ---------;
   (f) other - farming main occupation.

| | | |
|---|---|---|
| 8. | Purpose: | Purchase of a paying farm after Jan. 19, 1961. |
| 9. | Admin. & obtaining funds: | Quebec Farm Credit Bureau. Prov. Govt. purchases securities issued by the Bureau. Also makes short term loans to the Bureau. Also reimburses losses. |

Quebec, Farm Credit Summary - Farm Improvement Act

| | | |
|---|---|---|
| 1. | Date Enacted: | June 10th, 1961. |
| 2. | Title: | Farm Improvement Act. |
| 3. | Maximum Loans: | Granted by a Credit Union or a Bank<br>$3,000 for farm organization;<br>$4,000 for farm improvement. |
| 4. | Security: | Pledge, or security under section 88 of the Bank Act; Life insurance. |
| 5. | Repayment: | 5 years for purchase of stock;<br>10 years on loans for implements and improvements. |
| 6. | Interest rate: | 6%. Subjected to a rebate by the government of an amount equal to the interest at 3% on loans. |
| 7. | Restrictions: | only restriction - farming main occupation. |
| 8. | Purpose: | Farm organization and improvement. |
| 9. | Admin. & obtaining funds: | Banks or Credit Unions. |

# APPENDIX C

## EMERGENCY AND DISASTER LOANS

The full statement of policy of the Canadian Federation of Agriculture asking for Federal emergency loan legislation is as follows:

"Occasionally farming areas are struck by sudden national catastrophes such as severe drought, large scale floods, storms of hurricane force, severe infestations of insects, plant diseases of epidemic proportions, severe frosts at certain periods for plant and tree growth and other natural hazards.

Damage to buildings, fences, machinery, fruit trees, livestock and land in addition to actual loss of production under such disaster conditions can be very severe. When this happens, many farms are in immediate need of credit for the purpose of restoring actual assets destroyed or damaged and for current farm operating and living expenses until production can be brought back to normal.

As a rule, it will be a year or so after rehabilitation starts before the farmer is on his financial feet. During this interval his income will be low and oonsequently he is not in a position to service the usual commercial type of loan from the usual credit agencies. Recognizing this, the agencies either refuse to grant credit to the unfortunate farmer, or at least are very reluctant to do so. To meet

such disaster situations, assistance credit is both necessary and justified.

When disaster strikes a large area with sufficient severity, a national disaster is often recognized to have occurred, and aid is forthcoming from Federal, provincial and private sources. That such help is given is of course a good and necessary thing. However, farmers may suffer extremely serious economic setbacks as a result of natural causes which are of such a nature, or so restricted in the area affected, that such national emergency relief and rehabilitation programmes are not established. Emergency or disaster loans which can be made available on the basis of individual need, and which will meet the problems caused by even quite localized disasters and emergencies, are, therefore, very definitely needed in addition to, but not as a substitute for, major relief programmes.

Recommendations

To meet disaster situations a special type of Federal government credit agency should be formed to be known as the Agricultural Emergency Loan Administration (A.E.L.A.). It should be financed by the Federal government setting up a revolving capital fund, out of which loans to farmers would be made under the following conditions:-

(a) The areas within which the A.E.L.A. may

such disaster situations, assistance credit is both necessary and justified.

When disaster strikes a large area with sufficient severity, a national disaster is often recognized to have occurred, and aid is forthcoming from federal provincial and privat[illegible] sources. That such help is given is of course a good and necessary thing. However, farmers ma[illegible] suffer extremely serious economic setbacks as a result of natural causes which are of such a nature, or so restricted in the area affected, that such national emergency relief and re-habilitation programmes are not established. Emergency or disaster loans which can be made available on the basis of individual need, and which will meet the problems caused by even quite localized disasters and emergencies, are, therefore, very definitely needed in addition to, but not as a substitute for, major relief programmes.

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To meet disaster situations a special type of Federal government credit agency should be formed to be known as the Agricultural Emergency Loan Administration (A.E.L.A.). It should be financed by the Federal government according to a revolving capital fund, out of which loans to farmers would be made under the following conditions:-

(a) The areas within which the A.E.L.A. may

operate should be designated by the Governor-General-in-Council, on the recommendation of the Minister of Agriculture, and on application of provincial and/or local government units.

(b) It should not be necessary to lay down prior rules as to the extent of the area which must be affected by disaster. Such an area could be very small. Dependence should be placed upon local and provincial governments to make the initial decision as to whether a few or many of the farmers in their jurisdiction are badly enough hit that an emergency loan programme should be made available.

(c) Loans should be made to individual farmers, either owners or tenants, up to a maximum of $10,000.

(d) Loans should be interest free, with the exception of simple interest charged on over-due payments, and repayable in periods from three (3) to eleven (11) years. Normally no payments should be due the first year after the granting of the loan. Under exceptional circumstances, the time when payments start should be extended beyond one year.

(e) Loans should be made for repair or replacement of buildings, machinery, orchards, drainage and irrigation systems, fences,

bridges, and livestock. In all cases, the need for such replacement or repair must be due to the incidence of the actual catastrophe. Where the catastrophe has resulted in an actual production loss, loans should be granted for seed, feed, fertilizer, other operating costs, and essential living costs where need can be established."

# APPENDIX D

## THE FARMERS HOME ADMINISTRATION

The Farmers Home Administration, an agency of the United States Department of Agriculture, serves farmers with credit and needed technical assistance on farm and economic management problems. These supervised loans are made only to applicants who are unable to obtain adequate credit from other sources at reasonable rates and terms. Credit assistance was provided to 183,000 farmers in 1961. Various types of loans are made by this credit agency.

Operating loans are made to eligible operators of farms, not larger than family farms, to assist them in making improved use of their land and labour resources and to make adjustments which will help them to be more successful in their farming operations. Funds may be advanced to p ay for equipment, livestock, feed, seed, fertilizer and for other farm and home needs. Each loan is scheduled for repayment over a period not exceeding 7 years. The interest rate is 5 per cent. Loans usually average about $3,000.

Farm ownership loans are made to eligible farmers to enlarge, develop and buy farms not larger than family farms, and to refinance debts. The loan period cannot exceed 40 years. The interest rate is 5 per cent. Loans average around $15,000.

Loans for water and land development, use and conservation are made to individual farmers, groups of farmers and rural residents to develop water supply systems for irrigation, household use and livestock, to

[illegible]

[illegible]

The Farmers Home Administration, an agency of the United States Department of Agriculture, serves farmers with credit and needed technical assistance on farm and economic management problems. These supervised loans are made only to applicants who are unable to obtain adequate credit from other sources at reasonable rates and terms. Credit assistance was provided to 155,000 farmers in 1961. Various types of loans are made by this credit agency.

Operating loans are made to eligible operators of farms, not larger than family farms, to assist them in making improved use of their land and labor resources and to make adjustments which will help them to be more successful in their farming operations. Funds may be advanced to p ay for equipment, livestock, feed, seed, fertilizer and for other farm and home needs. Each loan is scheduled for repayment over a period not exceeding 7 years. The interest rate is 5 per cent. Loans usually average about $3,000.

Farm ownership loans are made to eligible farmers to enlarge, develop and buy farms not larger than family farms, and to refinance debts. The loan period cannot exceed 40 years. The interest rate is 5 per cent. Loans average around $15,000.

Loans for water and land development, and conservation are made to individual farmers, groups of farmers and rural residents to develop water supply systems for irrigation, household use and livestock. [illegible]

drain farm land and to carry out soil conservation measures. The repayment period must not exceed 40 years. The interest rate is 4½ to 5 per cent depending on the type of loan. Loans to individuals average around $5,000 and to associations of rural people $100,000.

Rural housing loans are made to farm owners and owners of non-farm tracts in rural areas and small rural communities with populations of not more than 2,500. Loans are made for the construction and repair of farm homes and essential farm buildings. The loan period must not exceed 33 years and the interest rate is 4 per cent. Loans usually average around $8,000. Loans may also be made to individual farmers, groups of farmers, and public and private non-profit organizations to finance housing facilities for domestic farm labour.

Emergency loans are made to farmers where national disasters such as drought, floods, storms or other calamity causes serious losses. The interest rate is 3 per cent. These loans may be made for purchase of feed, seed, fertilizers, replacement of farm equipment and livestock, for repair and replacement of farm buildings, fences, drainage and irrigation systems and for other essential farm and home operating expenses. For crop destruction it is expected the loans will be repaid when income from crops are normally received. For replacement of livestock and equipment loans are repayable in one to five years, for repair of buildings and other improvements to real estate are usually repayable over periods of one to ten years.

Watershed loans are made to local organizations to help finance and protect and develop land and water resources in small watersheds. The funds may be used for flood control dams and reservoirs, rural water supply distribution systems, diversion dams, irrigation canals, and drainage facilities. Loans are repayable over periods up to fifty years. The interest rate for 1962 is 2.742 per cent.

Most of the loans made by the Farmers Home Administration are made to farmers who carry on farming operations on a scale large enough to support their family. However, loans are also made to farmers on small farms who obtain part of their income from off-farm employment.

Each loan is based on a plan that when followed will provide enough income from the farm and other sources to enable the family to have a reasonable standard of living and make payments when due on their debts.

The country supervisors of the Farmers Home Administration assist borrowers in preparing the farm and home plan, and provide on-the-farm assistance with farm management problems. Where major adjustments and improvements are being made the county supervisors meet with borrowers at the end of each year to help them analyze the strength and weaknesses of their farm operations and draw up plans for further improvements in the coming year.

During the past quarter of a century about two million farmfamilies have borrowed $5.5 billion dollars from the Farmers Home Administration and its

predecessor agencies (The Resettlement Administration and Farm Security Administration) to buy, equip, improve and operate farms. Repayments have to date exceeded 4-billion and losses which have been charged off have been about 4 per cent or less than the interest collected. All these farm families at the time they borrowed from this agency, were unable to obtain the funds they needed from other credit sources. Without this credit programme they would have been unable to make the necessary adjustments in their operations, unable to acquire the resources they needed to make an adequate living and in the case of young farmers, unable to become soundly-established as farm operators. In many instances they would have been forced to sell out. They were able to make a success of their farming operation because each loan is accompanied by expert advice on farm and home management to help the borrowers to make profitable use of land, labour and other resources that were available to them.

## APPENDIX E

## CONCENTRATION OF BANKING AND FINANCIAL INSTITUTIONS IN CANADA

The following are a few figures in evidence of the degree of concentration of financial strength and influence in the Canadian economy, in 1961.

1. The Canadian Imperial Bank of Commerce has 25 per cent of the assets of all chartered banks. The Royal Bank of Canada has 25 per cent of the assets of all chartered banks.
The Bank of Montreal has 20 per cent of the assets of all chartered banks.
Total for three banks: 70 per cent of the assets.

2. The Royal, Montreal and National Trust Companies are the three largest trust companies and between them they do about 60 per cent of all the investment business of the trust companies as a whole. Of administered funds, they control about 70 per cent. The close inter-relationship between these three institutions and the three largest banks may be illustrated by the inter-locking of their directorates:

- The Royal Bank and the Montreal Trust Co. have 16 directors in common, including two who are members of the Executive Committee of one or other institution.
- The Bank of Montreal and the Royal Trust Co. have 16 directors in common, including eight who are members of the Executive Committee of one or the other institution.

- The Canadian Imperial Bank of Commerce and the National Trust Co. have six directors in common. The Canadian Imperial Bank of Commerce, it may be noted, has 2 or more directors in common with all six of the leading trust companies in Canada.

There are other bank-trust company relationships but these are the most significant.

3. The Sun Life Insurance Co., the largest in Canada, has 3 directors in common with Royal Trust Co. and 5 in common with the Montreal Trust. It has 4 directors in common also with the Royal Bank and 5 with the Bank of Montreal. There are many other interlockings of directorates but the one just noted is most striking.

4. Of particular interest in this connection is the recent formation of a new company - ROYNAT - which has been organized by the Royal Bank, Montreal Trust and Banque Canadianne Nationale, we understand, for the purpose of entering into a wider field of investment than is presently covered by their combined operations. No one of these institutions own a controlling interest in ROYNAT, which relieves them of obligations with respect to investment policy which they would otherwise incur under the law government banks (or trust companies) as the case may be.

May we repeat again that the purpose of this

information is not to attempt to show an insidious plot, but merely the large stake the country has in keeping such very powerful concentrations of financial strength amendable to the requirements of public policy. The reason is that, because of their size, essentially public policy decisions will, in fact, be made by them.

APPENDIX F

CANADIAN AGRICULTURAL ECONOMICS RESEARCH COUNCIL

An Agricultural Economics Research Council is to be established in Canada this year. It is to conduct independent research on the economic and social problems of agriculture. The research is conceived to be completely free from political and other pressures. The research is to provide appraisals of agricultural policies and programs now in operation and to study and report on farm policies which might be undertaken to assist in raising the incomes and social levels of Canadian farmers.

The Council will have a Board of Governors representing the contributing bodies. To ensure independence of research work, the decisions on the research projects are to be the responsibility not of the Board but of a Research Directorate appointed by the Board. A highly qualified director of Research will be the chief Executive and Administrative Officer.

An annual minimum objective for the Council's operations of $150,000 a year is being sought for an initial five year period. Finances are to be provided by the federal and provincial governments, from organizations, co-operatives, and industries associated with agriculture. The federal government is to contribute $50,000, the provincial governments $50,000 and non-government organizations $50,000 a year.

Reports on all of the research are to be published. The independent character of the Council's research undertakings should be of real value to

governments, to farm organizations and to industries which serve agriculture.

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# Royal Commission on Banking and Finance

The Federated council of
Sales Finance Companies.

## Hearings held at

OTTAWA

Vol. 44

Date. Sept. 24, 1962

Official Reporters
F.J. Nethercut and R.J. Young
Toronto, Ont.

ROYAL COMMISSION ON BANKING

AND FINANCE

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Hearings held at Ottawa,
Ontario, on Monday,
September 24th, 1962.

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THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

Mr. W. Thomas Brown, M.B.E.
Investment Dealer
Vancouver, British Columbia

Mr. James Douglas Gibson, O.B.E.
Banker
Toronto, Ontario

Mr. Gordon L. Harrold
Agriculturalist
Calgary, Alberta

Mr. Paul H. Leman
Corporation Executive
Montreal, Quebec

* Mr. John C. MacKeen
Corporation Executive
Halifax, Nova Scotia

Dr. W. A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

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Mr. H. A. Hampson - Secretary

* Mr. Gilles Mercure - Joint Secretary

* Absent

Ottawa, Ontario,
Monday,
September 24, 1962.

--- At 9.15 A.M. the hearing resumed.

SUBMISSION OF

FEDERATED COUNCIL OF SALES

FINANCE COMPANIES

- - - - - - -

APPEARANCES

| | | |
|---|---|---|
| R. M. Willmott | - | President, Traders Finance Corp. |
| C. E. Trudeau, | - | President, Canadian Acceptance Corp. |
| J. H. L. Ross | - | Vice-President & General Manager, Industrial Acceptance Corp. |
| P.P. Saunders | - | President, Laurentide Financial Corp. |
| E. W. Flanagan | - | Vice-President, Pacific Finance Acceptance Corp. |

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THE CHAIRMAN: We now call this meeting to order. We have this morning a representation from the Federated Council of Sales Finance Companies. We have all read this brief with the greatest of interest and are in a position to carry on a discussion.

What is your intention as to an opening statement?

MR. WILLMOTT: Mr. Chairman, the opening statement follows very closely with the printed opening statement. There was just one addition that I was going to read from the brief itself. Would you prefer that we dispense with the opening statement?

THE CHAIRMAN: We have all read it, and I think perhaps the time would be better served by discussion of the brief.

MR. WILLMOTT: Before proceeding I would like to introduce the representatives of the Federated Council of Sales Finance Companies who are appearing before you today.

I am R. M. Willmott, president of Traders Finance Corporation. On my immediate right is J. H. L. Ross, vice-president and general manager, Industrial Acceptance Corporation. On Mr.Ross's right is Mr. C. E. Trudeau, president, Canadian Acceptance Corporation. On my immediate left is Peter Paul Saunders, whom you have already met when he presented a brief on behalf of his own company, Laurentide Financial Corporation. On his right is E. W. Flanagan, vice-president of Pacific Finance Acceptance Corporation.

We have allotted the various fields of questioning through our members in order that the Commissioners may be provided in the best manner possible with the information they require. To facilitate the answering of any questions that may be asked, members of the Royal Commission have been given a seating arrangement of our group which partially indicates, if convenient to the Commissioners, to whom the question should be addressed.

On page 2 of the opening statement we were placing some emphasis on No.1:

> " Our recommendation that any need of control of consumer credit be achieved by monetary and fiscal policy clearly communicated to and equally effective on the operations of all suppliers of consumer credit. "

In that connection I would like to read from page 100 of our brief, section 205:

> " Since the meetings between the Bank of Canada and the represenatives of the sales finance industry in late 1956, there have been no contracts between monetary authorities and the sales finance industry. While the membership of this Council does not endorse any specific methods of expression of monetary policy by the monetary authorities, it will generally welcome any statement of policy which is direct and concise in its meaning. On matters purely

"directed to the sales finance industry, the membership of the Council would prefer to have direct contacts with the monetary authorities, rather than a second-hand transmission through competing financial institutions."

THE CHAIRMAN: Thank you, Mr. Willmott.

COMMISSIONER LEMAN: Mr. Chairman, I would like to begin this discussion by talking a little bit about the Council itself, rather than the individual companies. I would like to look into the operations of the Council. As I look at your sheet, I gather it is Mr. Ross to whom I should direct the question.

MR. WILLMOTT: Mr. Ross is president of the Federated Council.

MR. ROSS: Council was formed in 1957. There were eight finance companies that formed the nucleous of the membership at that time, and it has since grown to 37. I think the brief says 35, but there have been two new members since.

The percentage of the consumer sales instalment credit which the membership does is about 70 per cent of the total which is carried on in Canada. If we turn to the industrial and commmercial class instalment sales credit we find that over 90 per cent of sales finance in that field is done through members of the Federated Council.

Eight of our members are national; 29 are either

local or provincial.

The objectives of the Council are, I guess, similar to any other trade or professional organization. We want to promote the interests of our members. We want a forum where we can discuss and study problems that are peculiar to our industry; and we wish to promote policies which will increase public confidence, and to co-operate with any agencies that are set up to improve either the economic or social position of the country.

In 1960 we opened an office in Toronto, which is staffed by professional help, and which acts as a clearing house for those seeking information regarding the sales finance industry.

We hold an annual convention, and have done so since 1957. We have another one coming up in Vancouver in November of this year. We think that the technical and the educational workshops that have gone on at these conventions have been helpful to our membership.

We have prepared and distributed a number of consumer booklets which have been prepared with the idea of promoting the wise use of consumer credit. These have been widely distributed.

Also, in 1958-59 we prepared a book which is entitled Sales Finance Companies in Canada, which was produced by the Canadian Economic Research Association and was placed in libraries of universities, schools, and in public libraries, and made available to the press.

COMMISSIONER LEMAN: Mr. Ross, thank you for the brief summary, but I should like to ask you a few more direct questions about the Council.

Why do you say that only 70 per cent of the interested parties or companies would be interested in belonging to your Council, instead of 100 per cent? What are the advantages and disadvantages in the long run?

MR. ROSS: What I said, Mr. Leman, or what I meant to say, was that 70 per cent of the business transacted in the consumer instalment sales field was transacted by the 35 members of the Federated Council; the remaining large proportion of that would be done by General Motors Acceptance Corporation, who are not members of the Federated Council. We do not know why, but we understand that they have a policy which does not permit them to be members of an association. But in saying that, I would like to say also that they have co-operated in the preparation of this brief as well as any of our own members have, with the result that the brief is very representative of a very substantial percentage of the industry.

Now, there are a lot of very small companies. There are about 175 that report to the Dominion Bureau of Statistics. Many of them are very small local companies who handle the business of only one retailer, presumably their own business, with the result that they are not eligible for membership.

We feel that in the membership we have we have a good representative group of the industry.

COMMISSIONER LEMAN: Is it quite expensive to belong?

MR. ROSS: There is no entrance fee. Dues start at $150 per annum, and are scaled upwards according to the size of the company.

COMMISSIONER LEMAN: It would not be a financial obstacle that would stop members from joining? It is not considered by them to be too expensive?

MR. ROSS: Absolutely not. As a matter of fact, a couple of years ago we intentionally lowered the fees in the lower brackets so that we could encourage smaller companies to come in. We would like to have them all.

COMMISSIONER LEMAN: Does the Council exercise any kind of disciplinary or policing power at all over its members?

MR. ROSS: We do not have the authority, such as the professional bodies have - legal, medical and accountancy - to expel any member or to discipline him. But I think by association among ourselves there is a natural human tendency for a person to want to do the right thing. We feel that through our association at these annual conventions and at other times during the year, that while we do not have authority to discipline, we do a very effective job of it.

If we see an article appearing in the press which is detrimental to us in any way, whether the subject company is a member of the Federated Council or not, the principals are contacted by our executive vice-president. So, they know we are alert to anything that would have an

adverse affect from a public relations standpoint, of which we are very conscious.

COMMISSIONER LEMAN: I am still wondering why people in the industry don't join. You said 70 per cent in volume of business done, are members. It is far from 70 per cent in numbers of eligible members.

MR. ROSS: Yes.

COMMISSIONER LEMAN: I was wondering what would be the cause, if it is not too expensive, and if you have no power to force them to do business in a particular way.

MR. ROSS: It is not, Mr. Leman, because they have not been invited. They have been invited. Many of these companies are so small that I doubt if they are interested in joining an association. We might have one located in a very small town or a rural area which has two or three accounts of its own and is not interested in the provincial or national picture. I think it is the lack of interest on their part, more than anything else.

COMMISSIONER LEMAN: I would like to refer now to something that your chairman mentioned specifically. You referred to paragraph 205 and talked about contact with the authorities. On your side, what efforts have been made by the Council to improve this contact with monetary and other governmental authorities? In other words, the initiative doesn't have to start at one end. What have you done?

MR. ROSS: The area that I am assigned on that would fall into the part where we have contacted

the authorities in connection with the activities of I.D.B., where we have contacted them from a public relations angle. We co-operated in the "do it now - buy it now" campaign, through the Department of Labour, last year.

We have also had another contact with government authorities, but as to that contact, I leave to Mr. Willmott.

MR. WILLMOTT: Actually, we have very little contact. We have not had any approach from our Council to the monetary authorities on the general monetary system.

The Council was formed, you may remember, late in 1956. Certain members of the finance industry were invited to Ottawa, by Mr. Coyne, and he suggested at that time that it would be very convenient if they had some group they could approach or contact in the sales finance industry, in connection with matters pertaining to the industry. So, the Federated Council was formed the next year. But since that time there has been really no direct contact.

COMMISSIONER LEMAN: Does the Council approach other people than the Bank of Canada? Have you had discussions at times about matters of interest to the industry, say, with the Minister of Finance or such people? There must be problems crop up from time to time that would cause you to make the first move?

MR. WILLMOTT: Actully, Mr. Commissioner, the main problem has been in the tight money situations.

We have not approached the government or the Bank of Canada in that connection; but I must say, as implied in our brief, we would be very happy at any time if they make it known to us that they wish us to co-operate with them.

COMMISSIONER LEMAN: I think your paragraph 205 refers specifically to 1956.

MR. WILLMOTT: Yes.

COMMISSIONER LEMAN: Could you summarize just what was the result of this intervention? How successful was it?

MR. WILLMOTT: It had just medium success, sir, I believe. I was not present at the conference. We were asked to consider certain controls on the extension of credit in the matter of term and down payments. We agreed to do the best we could in that, except for one company that attended, and it made it a little bit difficult to follow completely through, without the approval of that company.

As pointed out in the brief, by the time we were contacted the companies themselves had already taken action because of the tight money situation, to introduce some form of credit controls, and the actual volume of credit had already started to decrease at the time of the meeting with the then governor, Mr. Coyne.

COMMISSIONER LEMAN: This is not the time when we want to discuss monetary policy and that sort of thing with you. I am talking just about the Council as such. I am wondering whether the Council is a suf-

ficiently tightly knit body through which to render an effective means of contact between the authorities and the finance credit industry. I am just asking for an opinion on that.

MR. WILLMOTT: My opinion would be that I do not think the monetary authorities recognize the nature of the Council, although they have been advised of it. They have not followed it up, and asked our co-operation in any matter.

COMMISSIONER LEMAN: Again thinking about the way the companies operate and the way the Council operates, I note in certain parts of your brief expressions such as "recommend and suggest". Let me give you an example of what I mean. In paragraph 47 I note:

> " The sales finance companies, in discounting the retailer's instalment paper recommend that the purchase agreement for the article fulfil the conditions of having a sufficiently large down payment ..."

Now, I would like to understand how your relations with the dealer work in practice. Do you recommend or do you tell the retailer that his paper must conform to certain criteria for acceptance by you afterwards?

MR. WILLMOTT: Mr. Saunders will answer that.

COMMISSIONER LEMAN: Is "recommending" too weak a term to use there?

MR. SAUNDERS: Well, Mr. Leman, it is our policy that we insist on certain types of equities and certain conditions; but the dealer is an independent businessman, and he makes the decision as far as whether he is going to follow our adivce or not is concerned. If he does not follow it, then he has a choice of either keeping that paper himself or selling it to somebody else.

The nature of competition is such that he can exercise that choice if he wants to, so there is a certain amount of give and take. Therefore, I think that "recommend" is the right word. The dealer himself likes the idea that it is more or less a permanent arrangement with one of the finance companies. It would be rather difficult for him to keep shopping around all the time. On the other hand, if he definitely disapproved of the credit practices of the finance company he would not stay with them.

COMMISSIONER LEMAN: You have given us, at the back of your brief, a lot of forms that are used for this purpose. What does a dealer do? Does he keep the forms of half a dozen companies and just fill in one set of forms for one transaction and another set for another, or does he fall into a pattern for this year's model? Let us talk about automobiles.

MR. SAUNDERS: The normal practice is that a dealer enters into an arrangement with one of the companies. This arrangement will cover, basicall

two things, but it will cover additional ones that are appropriate. The two basic things which will be covered will be the financing of his inventory, which we term "wholesale financing," and the financing of his customers' purchases, which we term "retail financing."

The wholesale financing is a very advantageous arrangement for the dealer, because it has been the practice in the automobile industry that the amount of inventory which a dealer carries is substantially greater than the working capital he employs to support it. For this reason finance companies will buy these cars right out of the factory and deliver them to the dealer. The dealer puts in the order and says, "Send the invoice to such and such a finance company." This is the first step in the dealer-finance company relationship. It is implied that if the wholesale arrangements are provided by one company they will also do substantially all the retail financing. At the time when this arrangement is made -- which may be once in a lifetime or it may be once a month -- the various aspects of credit, and so on, are discussed.

Now, of course, credit conditions will change. I think we would like to see one-third down payment in a new order, but I think this is no longer the standard in the industry. There are changes which affect credit and the business of the dealer and of the finance company, and if they do

come up they have to be discussed. But the normal arrangement is that a dealer will do his financing with one company. He may have the forms of the others there too, because I think we all have quite aggressive sales forces, but basically he will be dealing only with one company.

COMMISSIONER LEMAN: Do you mean to say, basically he will be dealing with one company this year and, perhaps, another company next year; or does he get into the habit of dealing with one finance company for a long period of years, till something funny happens to cause him to go somewhere else?

MR. SAUNDERS: I think the latter would be the case. At the time the arrangements are made they are not made on any particular annual basis or tied to any particular period. The assumption is, if they are satisfactory they will carry on for a long time. But he is, of course, subjected to salesmanship by all the other finance companies, and, therefore, he may run into something that convinces him that he should sell his paper elsewhere or change his arrangement. The arrangement with these finance companies can be terminated immediately, as long as he pays off his liabilities; and that would not be too difficult because the other company that takes him over would do that. But that would be the intention, that when the finance company and the dealer get together they expect to do business with each other for a long time.

Similarly, if a commercial account opens a banking account they intend to stay with that bank as long as nothing happens which would disturb that relationship.

COMMISSIONER LEMAN: So when you say that the finance company recommends that his paper live up to certain conditions, it means it insists it be that way, if they want to deal together, and it has to be that way?

MR. SAUNDERS: Yes, but I would still say "recommend" would be the right word, because there is no power to enforce anything. The only course of action open to the finance company, if the dealer did not follow their advice, would be to terminate the arrangement. It would also be possible to refuse buying individual contracts, but if the dealer did not co-operate it would be quite difficult to work that, and it might be better to terminate the arrangement altogether.

COMMISSIONER LEMAN: Are there any cases of a dealer being able to have his wholesale financing done with one company and his retail financing with another?

MR. SAUNDERS: There are cases of that, but it is unlikely that any company would just carry the wholesale without doing some of the retail. However, there are some cases where the dealer may carry his wholesale with one company but divide his retail among several. I would say it is an unusual situation, but it does occur.

COMMISSIONER LEMAN: What will the salesman do when he goes to see a dealer and tries to get the account? Is it possible for a dealer to get the best of everything -- to get the best deal he can on wholesale and the best deal that he can on retail, and end up with a mix of the best rates of everybody that he can get in a particular, specialized area, or does he pretty well tie himself to one company once he wants a complete range of financing?

MR. SAUNDERS: I would say that he ties himself to the one company, but by virtue of the fact that salesmen of the other companies call on him, he is quite well informed of what is available, and if that particular company were not competitive, then he would take steps to make himself more profitable by going to another company.

If you are wondering what the salesman says when he comes around, well, there are various aspects in the finance industry where service of one type or another would be more beneficial to a dealer. Most of the finance salesmanship is based on service and not on rates. Rates are more or less established by competition. Service is something where you always strive for a better performance. These things will include such items as how quickly he can get the money if he wants it, which is very important, or what kind of appraisal service will he get on his trade-ins, which he takes in. Others are: has he any assistance so far as running his business is concerned, in the way of

advice; would insurance be provided somehow in the package; how would his customers be treated -- because most dealers are members of the community and as retailers they base quite a bit of their business on repeat business, so if their customers are not treated fairly this could reflect on the dealers. Such items make up service.

COMMISSIONER LEMAN: I ask this, because I would like to refer you briefly to Tables 4.4 and 4.5 of the brief, where there is a great spread, which is fairly significant, at the wholesale end here. That starts on page 122 and goes on to page 124.

MR. SAUNDERS: Yes, I have the chart.

COMMISSIONER LEMAN: Can the dealer shop around from one company to another, or does his own credit-worthiness affect the rates that he is going to get? In other words, one finance company, will it grant credit at the wholesale level to one dealer at somewhat more advantageous rates than to another, or does it have to leave its rates pretty well even for individual dealers?

MR. SAUNDERS: I would say that the rates will vary with the credit-worthiness of the dealer, and also the potential business which a company expects to do with him. For instance, a dealer located 250 miles away from your nearest office is not going to be as easy to service as one who is located two blocks down the street, and the rate at which he will get his wholesale will be different.

Also there are mixes of wholesale, where some dealers only borrow wholesale money against new cars and others carry a combined inventory of new and used with the finance company, and even though the rate is different for the new and used, the mix of the two is of some consideration. I have never seen it done, where a dealer would shop around for a wholesale rate with one company and retail financing with another. Theoretically, I suppose it would be possible, but in practice it would be rather cumbersome.

COMMISSIONER LEMAN: I refer you to paragraph 93, which is on page 41. You claim a large finance company will be able to offer to a dealer quite a mix of service. It goes from "A" to "G"; that makes seven areas where there can be a wholesale relationship: wholesale financing, capital loans, dealer liability, credit investigation service -- all this is a package for the dealer. So, would you say, therefore, the way a salesman would approach a dealer would be to try to improve the total mix of these seven factors in order to give him a little advantage in one area against another, and to try to get the account, or how does it work, really?

MR. SAUNDERS: A lot will depend on the individual salesman. The salesman is supplied by his company with a list of possibilities, which are listed here from "A" to "G", but they could even include other items. He will try to persuade

the dealer that the things that his company offers would be of greater advantage to him than the things that he can obtain elsewhere. But in talking financing we do not sell only wholesale or only retail or only capital loan or only insurance; we sell it as a package. We do not like to separate the package, and it is not practicable for the dealer to separate the package because most of these dealerships are small businesses, and it is to their advantage to deal with one organization supplying this package. If they were to divide it up it would be time-consuming and also costly, and credit is always a matter of confidence, and we feel the confidence between the dealer and the finance company and the finance company and the dealer has to be quite strong. If he were to deal with several finance companies, that confidence would certainly be weakened. He is at liberty to change, but he is not well advised to deal with several at the same time.

COMMISSIONER LEMAN: Is there the matter of size there also? Do some dealers begin to generate so much business that the small company cannot cope with the size that they would offer?

MR. SAUNDERS: That happens, of course, but smaller companies are likely to deal with smaller dealers, and larger dealers may be left in the position where they have to deal with one of the larger companies. There is a fair number of larger companies, and there is still a fair amount

of competition. There are more companies, perhaps, that a smaller dealer can deal with than companies that a larger dealer can deal with. But this would not put the smaller company at any greater disadvantage, just the very fact of its size. Some companies do not want to get big. They would rather stay small and deal on a very personal basis with a few dealers, and stay in their own community; and that is it.

COMMISSIONER LEMAN: But in the large centres what can a small company do to compete with a big one? On what factors will it try to compete -- on the rates?

MR. SAUNDERS: I think the main area of competition is service. Speaking from our own experience, as you probably know we started out as a very small company -- we were the smallest company in the field twelve years ago -- and we are among the largest now. We have found that competition should not be primarily based on any one of these things, but on a combination of them all. The type of service which you offer the dealer -- which includes a variety of things, some of which are listed here -- would be of prime importance. The rate will have some bearing on it, of course, but the small company is not likely to be the leader of the industry in either increasing or decreasing rates. It may have special situations where the rate will be below the industry average for some special reason -- such as, maybe, exceptionally good

credit from that particular dealer. There may be other situations where the amount of work is such that the rate is higher than the industry average, and is one which will not normally be tolerated. In that case there will be a higher rate. But as far as the prevailing rate is concerned, it is set on the basis of competition, I suppose, among these companies.

COMMISSIONER LEMAN: I am asking these questions in order to try to understand how the pattern has developed. Your brief explains to us that the top three companies have not been getting bigger and bigger at the expense of the others; there has not been too much tendency to greater concentration in, say, the post-war period. I am trying to find what are the factors which caused this next layer of companies to grow so well.

MR. SAUNDERS: I think one consideration would be that although the finance companies have a history which goes back into the early 20's, certainly throughout the depression and the war the demand for their services was much lower than it has been since the end of the war. At the end of the war there was a pent-up demand for consumer goods in very large proportions. At this point the availability of credit helped to satisfy that demand. In doing this a number of new companies emerged, and there was a lot of business there which was then divided among the new companies as well as the older ones.

COMMISSIONER LEMAN: Let us talk about those companies where there is a tie-in between the manufacturer and the finance company -- and G.M.A.C. may have been the most striking example. What do they do to maintain this tie-in? Do they offer a somewhat different kind of service to dealers than the non-captive finance companies can?

MR. SAUNDERS: They seem to have a wonderful way of finding out, for instance, when new dealerships are appointed. As I mentioned earlier, these arrangements are made on a more or less permanent basis, and if somebody is going to go into the automobile business he makes his arrangement at the time and does not particularly make it with any idea of changing it in the future. There would be an advantage in being the first one there. They do have that advantage in many cases. Otherwise, as far as service is concerned, I would say that they do provide good service, but I think all the companies provide approximately the same quality of service.

COMMISSIONER MACKINTOSH: Is there any indication that on occasion it is a requirement of the dealership that you deal with a captive market?

MR. SAUNDERS: I really don't know, sir; they certainly haven't told me that, but we do feel that ---

COMMISSIONER MACKINTOSH: Nobody has proved the suspicion in your mind?

MR. SAUNDERS: I think that the dealers are encouraged on the basis that it is all in one family and there are advantages to being a more important part of a big family.

MR. WILLMOTT: There are many dealers, if we are thinking of General Motors, for instance, who deal with independent finance companies primarily, because the independents have many more branches than G.M.A.C has, and therefore give better service.

COMMISSIONER MACKINTOSH: Thank you.

COMMISSIONER LEMAN: At the wholesale level to the dealers there seems to have been an increase in the large finance companies relative to the others, whereas at the retail level it seems to have had the opposite effect, and why is that?

MR. SAUNDERS: For one thing, you have to look at the automobile industry and there are only, I would say, certain companies that have better facilities for providing wholesale accommodation than others. The wholesale is handled on the basis that the automobile manufacturer expects payment for the car approximately at the time it leaves the factory, and this requires

a branch or a representative or a paying agent at the factory so that payment can be made.

The bigger companies have better facilities for this than some of the strictly local or regional companies have. They can make these arrangements, but it is much more complicated.

Also, there has been a trend in the automobile business towards an increase in inventories from the point of view that more and more options are available, its colour or technical improvements in a car. The inventories have been rising, and they have been rising mostly in the big dealerships and certain smaller dealers have been able to keep their inventories at lower levels because they draw on the automobile suppliers from the bigger dealerships and this may account for some of the difference as well. Maybe the type of dealership which deals with the smaller companies isn't required to carry, in comparison to its retail business, as much inventory.

MR. WILLMOTT: I think, Mr. Leman, that there is a much large concentration of automobile paper in the older companies, and automobile paper has always promoted the greatest amount of wholesale and that is why, in increasing volume, there has been more wholesale paper in the larger companies. In our own company, up to 30 per cent of our outstandings have been in wholesale.

COMMISSIONER LEMAN: There is something in the relative profitability of the two fields of credit that could explain this?

MR. SAUNDERS: Not as far as wholesale is concerned, sir; the wholesale is a necessary adjunct to receiving the retail in most instances, so that in order to obtain the retail one carries the wholesale.

COMMISSIONER LEMAN: You say in order to obtain the retail one has to offer the wholesale service; does it work the other way also?

MR. SAUNDERS: I am not quite sure what you mean, Mr. Leman.

COMMISSIONER LEMAN: There is your point of view and the point of view of the dealer himself; in order to get his retail business you have to operate in the wholesale?

MR. SAUNDERS: Absolutely.

COMMISSIONER LEMAN: There are some little companies that cannot offer both.

MR. SAUNDERS: Well, I think any finance company will carry wholesale for the dealers with whom they are doing business.

COMMISSIONER LEMAN: Including the small ones? There are many companies that can do just the retail business and not offer any wholesale?

MR. SAUNDERS: Not to my knowledge, sir.

MR. WILLMOTT: I would think that the smaller companies would much prefer to have retail only with no wholesale, and I think that perhaps even on some of the very large accounts that the small companies are very successful in getting a few contracts per month from the larger dealer, and they would also have many of the smaller dealers, as has been pointed out, where the

wholesale wouldn't be the big problem, but I think they would like to invest their resources in the retail paper, and since their resources are not unlimited they try to do that, and you find the wholesale ending up with the larger companies and the retail, percentagewise, with the smaller companies would be much more than the average.

MR. TRUDEAU: There are actually a number of small companies without any wholesale facilities, and these companies solicit business from dealers who don't need wholesale, and in many instances a small company of that type will completely forego the automobile finance business and go to other fields. They may limit it to appliance dealers or furniture dealers or such other concerns that might not have a need for wholesale, but there are small companies that offer no wholesale facilities at all.

COMMISSIONER LEMAN: Not in the automobile field?

MR. TRUDEAU: Generally not in the automobile field, that is right.

COMMISSIONER BROWN: Does this imply that the wholesale business is much the more competitive; that this is almost a loss leader or break even point in order to get the retail business, and this is the main point of competition for the dealers' business?

MR. SAUNDERS: It is one of the points, Mr. Brown. The wholesale is not profitable to the extent that the rate is such that it barely compensates

for the money cost to the companies, and whatever services are involved, of course, cost money to perform, and it is one of the areas of competition but it is an area of competition, again, in the type of service that that wholesaler will provide. There is the clearing service with the manufacturer, which a number of companies are more or less equal in, but there may be some value attached to one as opposed to another as far as the dealer is concerned.

Also, when we are talking about wholesale, there are two types; there is the new unit of wholesale, which is fairly straight forward because the price is known at the time the vehicle leaves the factory. Almost every transaction involves a trade, and many dealers like to have inventory financing in their used as well, and there are many factors which enter into it; the condition of the car and the amount of money that the dealer will spend in putting it into better condition if it is required, the salability. You can have a 1951 Packard, let us say, in beautiful condition, and it might sit on the dealership's lot for a long time, or it may have a certain value, but that value will not be realized too easily, so the type of arrangement which the dealer and the finance company can make with each other on the valuation of the used inventory and the speed with which he will get the money and the type of advice, as well as the kind of used inventory that maybe he should carry, these are all items of competition on the service level.

COMMISSIONER BROWN: That was the point I was

trying to get at; there is more competition for the dealer's business from the dealer's self-interest than on the retail end of it; the retail end of it rather comes along after you have the dealer's wholesale business, is that correct?

MR. SAUNDERS: Our competition, let us say, with the various finance companies takes place at the dealer level, and we are in competition with each other to try and make arrangements with any particular dealer, and once we have made arrangements with that dealer we can look forward to receiving his wholesale business, his retail business and whatever other business he might have. There are occasions when, as has been mentioned here, some of his business may go elsewhere, but the bulk of it will go to the one company as his main finance company.

THE CHAIRMAN: You were speaking of competition within the business?

MR. SAUNDERS: Yes.

THE CHAIRMAN: Because you mention in paragraph 43 that the total value of wholesale paper purchased by the ten largest companies has exceeded in volume the billion dollar level in every year but 1954, and in spite of increased competition at the retail financing level and a gradual declining share of the sales finance companies in retail financing, the wholesale financing has been at an all time high, but the competition that you infer there is competition with other outside institutions which are competing for the business of the sales finance

companies generally?

MR. SAUNDERS: That is right.

THE CHAIRMAN: But as far as the wholesale business is concerned, apparently that is still doing very well and . that competition hasn't made many successful inroads yet?

MR. SAUNDERS: Although the wholesale is not the profitable end of the business.

THE CHAIRMAN: I know but, as I think has been suggested, you have an advantage in having the wholesale business.

MR. WILLMOTT: Mr. Chairman, no sales finance company really competes for the wholsesale business; they are really competing for the retail.

THE CHAIRMAN: They think they will get the retail through the wholesale?

MR. WILLMOTT: That is the only reason ---

THE CHAIRMAN: There is competition from outside to get the retail business?

MR. WILLMOTT: Most of the competition outside, sir, wants the retail only, so that the amount of wholesale which the finance company has been carrying has been retained while we have received a decreasing amount of the retail.

THE CHAIRMAN: I would have thought you would have had the advantage over outside competitors, having got the wholesale business to begin with?

MR. WILLMOTT: If a purchaser goes to a dealer and buys a car for cash, then the deal is not financed, naturally, and that has accounted for the largest decrease

in the retail.

THE CHAIRMAN: Well ---

MR. WILLMOTT: In other words, I think that banking competition has accounted for a great deal of this.

THE CHAIRMAN: He gets the cash from the bank or from some other institution?

MR. WILLMOTT: That is right, and the banks don't as a rule carry the wholesale for the dealer.

THE CHAIRMAN: In other words, he prefers doing it that way rather than entering into the sort of contract that you have to enter into with sales finance companies?

MR. WILLMOTT: You must ----

THE CHAIRMAN: It would be much simpler with the bank?

MR. WILLMOTT: Do you mean the retail purchaser prefers that?

THE CHAIRMAN: Yes.

MR. WILLMOTT: He could, yes.

THE CHAIRMAN: He might be able to get a loan from the bank without entering into any conditional sales agreement, or anything of that kind?

MR. WILLMOTT: That is right. It is just a statement of fact that at the present time there are a great many more cash sales in proportion than there were, although the total consumer debt has grown. There is a lot more competition from other sources, and while the relationship of the wholesale has remained pretty much the same, the finance companies

have continued to carry the wholesale but have not received as large a proportion of the retail.

THE CHAIRMAN: Aside from the chartered banks, what are the other sources of competition?

MR. SAUNDERS: The credit unions, the personal loan companies, whatever sources of cash are open to the customer. The main sources would be the personal loan companies and the credit unions.

THE CHAIRMAN: Do credit unions do a very large business in automobile financing?

MR. SAUNDERS: They do, yes.

COMMISSIONER LEMAN: Isn't it mostly in the second hand part of the field?

MR. SAUNDERS: Again, they don't engage in wholesale financing, but their membership is encouraged to do their borrowing with the credit union, and this would apply whether they are buying a new or used car, or any other item.

THE CHAIRMAN: Yes, but if they buy a new car and want a fairly large amount of credit, the credit unions, I would have thought, would be rather limited in the volume of business they can and cannot do; it is a fairly big item to buy a new automobile.

MR. SAUNDERS: I think a lot would depend on the size of the credit union. Some credit unions would have no difficulty in financing new cars, and others might have ceilings on the size of individual loans which would be below new car levels.

COMMISSIONER LEMAN: So, your competition between finance companies stops at the dealer level and you offer him a package of services that he considers more advantageous for his own purposes, and

then he competes with other dealers on prices, mostly; there is no feeling among the purchasers of automobiles that they are better off with one finance company than another?

MR. SAUNDERS: We think there is; we try to build customer loyalty through the relationship which develops between that customer and ourselves, and we would like him to feel that his account was well serviced. We provide him with certain services which are implicit in the financing arrangements; insurance would be one of them, but there would be others.

Sometimes people who borrow on this basis have problems to do with their financial arrangements; maybe they want to change the payments from one date to another or want to increase or reduce the amount of payment which they are going to make. In the case of commercial accounts, they may want to add to their fleet of cars, or go out and acquire some other equipment. These are all areas of discussion between the finance company and the customer, so that we feel the customer is aware of the company he is financing with.

COMMISSIONER LEMAN: Thank you. Have you ever seen dealers advertise who will say that the people should buy their cars on their terms because they will then get a contract with XYZ company?

MR. SAUNDERS: Yes, I have seen that quite often. Of course, they do not do as much as one might expect, perhaps, because other dealers have the same financing possibilities through the same company, but, occasionally, if a dealer is looking for another sales point he will mention that he is supplying financing through such and such a company.

COMMISSIONER LEMAN: I think that completes my questioning on this section, Mr. Chairman.

COMMISSIONER BROWN: You made quite a point about salesmen going around and talking to these dealers and offering different ideas of service, and so on and so forth. You also mention the fact that when you approach a dealer he has usually been there for a long time. In fact, how effective are these salesmen in getting dealers to change? How much change does take place?

MR. SAUNDERS: I do not know that I can measure it exactly, but a change does take place. Any particular dealership is not likely to change two or three times a year, but there is a turnover, and the very fact that there are more companies now than there were 10 or 15 years ago is an indication that new companies have come in and have obtained business.

There are, basically, two areas. There was a period when there were a lot of new dealers, and when new dealers bought out somebody else. Such a dealer will make a change for some reason or

other. He may have a preference for one company, or is open to salesmanship at that time. The other thing is that there are times when, for instance, money is either scarce or is very free, and then a dealer may perhaps want to take another look to see if the service he is getting from his finance company is any different now from what it was when he first made his arrangement with it. I cannot tell you how much turnover there is, but there is a reasonable amount.

COMMISSIONER LEMAN: You have opened up one point that I had forgotten about. Do finance companies other than the captive ones -- naturally, the captive ones have a preference for the type of automobiles they like to finance -- develop these preferences? In other words, would these changes that might occur when a dealer changes his accommodation from one finance company to another have anything to do with the fact that he has changed his dealership and is handling a different line of cars?

MR. SAUNDERS: I do not think so. I think all the finance companies are more or less prepared to service on the same basis. If, for instance, somebody started out with a relatively unknown line and brought in a car from another country for which parts were not available, then there is no doubt that some finance companies would feel there is more risk in handling that particular product than in handling a well established product

that is already on the market.

In a case like that a great deal of weight will be put on the financial strength of the dealership, and the soundness of its operation. There may be the point where one finance company will become convinced faster than another that the product is here to stay, but that would be more the exception than the rule.

COMMISSIONER LEMAN: Does that give us a key to the reason why some manufacturers have gone in for financing the sale of their products? Is it the feeling that the general finance companies not tied in with a manufacturer do not adopt methods that will promote that manufacturer's product as well, or is it just the profitability of the financing that induces them to go into this business?

MR. SAUNDERS: I could not answer that. We have our ideas about it, but we do not know because they do not tell us what they really think.

MR. WILLMOTT: I think it is fair to say that very largely it is the profitability. In our own case we have had many dealers who have been with one manufacturer -- say, General Motors -- and there has been no hesitation about our still receiving the business. But, there have been certain instances where, when switching to General Motors, they have actually gone along with the General Motors plan because the service is available very closely to them, but to our knowledge I do not think there has been any direct coercion, or anything

like that, so far as the manufacturers are concerned.

COMMISSIONER BROWN: Could I go back to one answer that Mr. Saunders made earlier in the discussion? When we were discussing the recommended amount of the down-payment I think you expressed the opinion that the dealer, if he did not play along with you, had the option of either keeping the paper himself or selling it to somebody else. In fact, if the contract has been signed by the purchaser on your documents has the dealer the option of selling it to somebody else?

MR. SAUNDERS: Yes, he has.

COMMISSIONER BROWN: It can still be sold to somebody else?

MR. SAUNDERS: Yes. The documents are pretty standard conditional sales agreements, and whether the assignment is printed on the back or on the front there is an assignment to the effect that the contract will be assigned to such and such a company. It does not in general practice happen that that assignment is crossed out, and another assignment to somebody else is inserted. It is not something that we encourage. We do not want to be stationers. However, it does happen, and probably more often than one would think.

THE CHAIRMAN: With respect to retail financing you emphasize the credit service that you supply. You say it is unmatched in respect of the efficiency with which the credit is provided. How does that compare with the service that the

chartered banks supply?

MR. SAUNDERS: It is a somewhat different service. The sales finance industry has its reason for existence in assisting merchants and dealers to retail their merchandise. The service there is to enable people to buy and pay for what they buy over a period of time, and the credit service is geared to assist the dealer in making these sales. This is why we call this segment of the industry purchase credit. All other forms of credit are what we call loan credit, and loan credit is based on negotiations between a potential borrower and a potential lender, and it does not have any merchandising adjuncts to it.

THE CHAIRMAN: Well, what is the superior efficiency of your operation in the credit service? Is it the speed with which you are able to make the investigation and make a decision, or is it the cost, or what is it?

MR. SAUNDERS: Speed would be one of the major items. For instance, many automobiles are bought in the evenings or on Saturdays when perhaps a husband and wife are shopping together. The general pattern is that if they find a car they like then they want to get into it and drive it away there and then. A dealer who is familiar with the company's policies with regard to credit is in a position where he can say, "That's fine. If you want to drive this car away let us complete all the arrangements right here", and within five or ten

minutes the transaction can be concluded. This, of course, is definitely an item of service to the customer.

THE CHAIRMAN: That is a service that is not equalled by any competitor?

MR. SAUNDERS: Not to my knowledge.

THE CHAIRMAN: Would it not be provided by the credit unions?

MR. SAUNDERS: No. As I have mentioned, usually that type of arrangement is made between the borrower and the credit union. The borrower may go to a credit union and say: "I expect to go out and buy a car". He then asks if he is going to be able to obtain $800, $1,000 or $2,000, or whatever the sum is that he needs to buy this car.

THE CHAIRMAN: He would go to the credit union before he looked for a car?

MR. SAUNDERS: Yes, that is right.

THE CHAIRMAN: But you are talking about a person who goes into a car lot of some kind, or into a dealer's premises, and sees a car and wants to buy it right away and take it away with him. That is the sort of service that could not be obtained from a competitor at all?

MR. SAUNDERS: That is correct. I do not mean to imply that all cars are bought on a straight impulse basis. The buyer may have looked at that particular car sixteen times before he decides to buy it.

THE CHAIRMAN: I know. I just wanted to

get a picture of your industry as compared with that of some of your competitors.

MR. SAUNDERS: That is right. That would be an important difference.

THE CHAIRMAN: You also mention that your interest rates are closely comparable to the bank rates for similar business, or comparable to the new car rates offered by your other competitors. You say they are closely comparable. Can you elaborate a little on that?

MR. SAUNDERS: Well, not all the rates of the different banks are exactly the same in this type of business. The rate that the banks charge seems to be made up partly of interest and partly of a service charge, and in that respect they are similar or comparable. They are not exactly the same. The same statement could be made about our rates. Rates are not exactly uniform between the companies, but they are comparable, and they are approximately the same.

THE CHAIRMAN: Do you regard bank competition as very serious? There are certain advantages that the banks have, as you have mentioned at different places in your brief. Apparently the banks' business in this field has been increasing quite rapidly in recent years. What does the future hold with respect to that competition?

MR. FLANAGAN: We feel in a free society such as ours that competition provides the consumer with a number of advantages. We have found

that the banks and the credit unions are extremely competitive in durable goods financing. I think you have heard on record before your Commission that 20 per cent of credit union loans are made for the purpose of financing automobiles. We have heard individual estimates from credit union officials that run higher than that. But, getting back to your point, we feel that bank competition is good from the consumer's point of view because it causes all competitors to enhance their services. It certainly causes us to improve what we are doing.

We feel that competition has done another thing that is good for the general economy of Canada, in that it has created a new market. We have noticed that although our industries rate of growth in recent periods has remained in a status quo position, there has been an increase in the absolute number of people using consumer credit, and from that standpoint we believe added competition has been good.

I think I express the majority of the views of the people in our trade association when I say that this type of competition will serve our own interest in the future, and I am sure we will again enjoy a better portion of the total market than we have in the last couple of years. We will continue to do things to improve our service and this will result in additional future business.

THE CHAIRMAN: I would like to ask you about commercial and industrial finance. That has

become quite a substantial area. It is an intermediate type of financing. Is there much competition in this area of business from other sources?

MR. TRUDEAU: There is very strong competition in that business, first of all, amongst ourselves. More and more sales finance companies have developed a department of specialists in order to expand their participation in commercial and industrial financing. To some extent we do compete with the chartered banks for this kind of financing, and that competition comes to us in two forms. In some instances the chartered banks will lend the seller of industrial equipment funds secured by instalment contracts that are created by the seller. To that extent there is competition.

Also, the chartered banks will make either on a very formal basis a term loan, or, in many instances, what I would call an informal term loan. With respect to the latter type of loan they actually know the purpose of it is for financing the acquisition of machinery or income-producing equipment, and there is an understanding that this particular demand note obligation will be reduced at the rate of so much a month or so much a quarter, and that rate will be based on the earning capacity of this new equipment. In that field there is very strong competition.

THE CHAIRMAN: Were you the first in this field or area of financing?

MR. TRUDEAU: I do not know that we were

actually first. We have been in it since away back in the 20's. It was not an industry that grew very fast until subsequent to World War II, really. It has taken much hard work on the part of our members -- ourselves and our competitors -- in establishing a position for us in this field, and an understanding in prospective users of macinery and equipment that we are pretty decent people to deal with; that we are not just a free-balling loan operation. We are pretty well accepted by sellers and purchasers of machinery today.

THE CHAIRMAN: The credit risks are generally good, are they?

MR. TRUDEAU: Generally good, although in many instances the amount of credit extended in relation to the worth of the user is quite substantial, and it takes a bit of know-how and understanding on the part of a sales finance company to recognize that there is ability in the purchaser's organization for the taking of this equipment and machinery and earning a profit with it. We recognize that over and above that they need to continue their business, plough back profits and build up a surplus to actually pay for the machine. There is an element of risk.

THE CHAIRMAN: You make the statement that this type of financing is available for all types of revenue-producing machines and equipment at the present time.

MR. TRUDEAU: That is right.

THE CHAIRMAN: For how long has that been true?

MR. TRUDEAU: Longer than I have been in the business. We are using the same break-down of types of commodities that we handle that were used 25 years ago, when there were about 45 different classifications, including a couple that are catch-all and miscellaneous that pick up what we have not a definite designation for.

THE CHAIRMAN: Then, you also do a certain amount of business in term loans; is that correct?

MR. TRUDEAU: That is correct, yes.

THE CHAIRMAN: Could you give us a little better picture of the sort of business that that contemplates?

MR. TRUDEAU: Our term loan business we feel is in an intermediate category. It more or less fits between the kind of short-term credit that is usually provided by the chartered banks and maybe the longer investment bank type of credit. Our initial ventures in this field were based strictly on the lines of lending money on a term basis over a period of from three to five years, and in more recent years we have extended that period up to maybe eight or ten years. Initially we wanted the security to be income-producing machinery and equipment, but more recently some of us have been willing to stretch a little beyond looking at machinery and equipment as our only

security and have taken on, possibly, real estate.

THE CHAIRMAN: We will adjourn now for 15 minutes.

--- Short Recess.

--- Upon resuming after the recess, at 10.50 A.M.

THE CHAIRMAN: We will now resume.

COMMISSIONER LEMAN: Gentlemen, I was wondering if we could get a better perspective of all these various fields of lending that the finance companies are now involved in. Do you think it would be possible to set down a range of effective interest rates that you get on the various types of business -- retail, durable goods, wholesale, capital loans and business-term loans. From all your charts and tables here, and median rates, your charges are expressed as a finance charge per day in certain cases and expressed differently in other cases. The temptation is to get back to the range of effective interest rates to the finance company. Would it be possible to set those down?

MR. WILLMOTT: Do you mean how much we charge for capital loans, how much for retail financing, how much for wholesale, et cetera?

COMMISSIONER LEMAN: I understand perfectly that in this field of loaning there are different service costs involved, but nevertheless they do end up in giving an effective interest rate that you charge on different kinds of loans. Would it be possible to start with, say, retail automobile financing? What is the range of effective interest rates which you get on that? And then go on to wholesale financing of dealers and capital loans, and state the interest rate on those.

MR. TRUDEAU: You are suggesting a

supplementary report with this information?

COMMISSIONER LEMAN: No. I thought you might set them down now, in approximate terms and expressed as a range -- I don't think you can say it is so much.

I have done a little figuring, and I don't know whether my figures are wrong or not.

MR. TRUDEAU: Mr. Leman, I don't think any one of us would be capable of running it down accurately enough to want to present it as public information right now. Thinking, for instance, in this field of wholesale financing, those of us who are charging a flat charge for a period of 60 or 90 days, plus a certain amount of interest, find that the effective rate of interest varies substantially, depending on how capable the dealer is in turning over his inventory in a hurry.

Also, you have to back into this what is our cost of insurance. Actually, we are providing some insurance that we have to buy out of this flat charge, and I don't know whether anyone here would know exactly what that is.

COMMISSIONER LEMAN: It makes me wonder. I have the naive idea that if I were managing a finance company I would ask myself this: When I put a dollar into this particular type of loan, I get so much return on that dollar, and if I put it in another type of loan, I get so much on that dollar...

MR. TRUDEAU: When establishing a rate structure we have to think in terms of much more

than the return on a dollar. I am not quite as familiar with the detailed arithmetic of our smaller balance business as are some other gentlemen here, but I can actually quote some figures that we use in the larger balance items. I could comment on some of the actual decisions we have had to make.

For instance, we know that it costs us at branch level $8 per instalment to service an industrial account. That does not provide money cost. That does not provide sales expense at the branch level. In addition to this $8 cost, our sales expense at the branch level is roughly $75 to $100 per transaction.

Now, you get into the field of purchasing instalment contracts -- some have a balance of $1,000, some of $5,000 and up to $10,000, and some up to larger amount. I noticed, for instance, in the brief that was presented by Industrial Acceptance Corporation mention was made of the fact that 49 per cent of their commercial and industrial transactions have a balance of less than $1,000.

Now, if we took a $1,000 transaction, and we get right to the very top level of that: Let us assume that we charged a finance charge no higher than 6 per cent for 12 months, which converted to simple interest might be 11 per cent on a 12-month transaction. We still only have an income of $60 for that $1,000 transaction, payable in twelve equal instalments.

For us to get concerned about what per cent

per annum we are dealing with, does not mean very much, because the only factor that goes into our cost that is based on per cent per annum is the cost of money. Everything else is based on cost of handling. With a $60 gross income, if we are in a field where we have a cost at branch level of $8 per instalment and a sales cost of $75, there isn't much profit in the deal. In addition, we have to borrow the money, and we would like to set up adequate reserves for losses, and make a profit.

Now, we handle transactions of that type very often in order to service a seller who also creates larger transactions. We may also handle transactions of that type unprofitably, because we are dealing with a purchaser of equipment who might be a steady purchaser, and therefore we are going to handle one deal in order to get another one.

But speaking very honestly, and not trying to beat around the bush, in establishing rate structures we are not as concerned about interest rate as many people think we should be. I do feel we could come up with the ranges you are asking for, but I think it would be very difficult to do it here. Those ranges would spread over quite a wide area.

We also, in small balance paper, get into the problem of minimum charges. My own company has a minimum charge requirement of $50. We don't set that down as a charge in order to get an exhorbitant financing rate on a $100 deal; in fact, what we want to do is discourage the $100 transaction.

Again, we may make exceptions.

THE CHAIRMAN: Is it right to say that these capital loans to dealers, and perhaps the term loans -- maybe they overlap a bit, I don't know ---

MR. TRUDEAU: They overlap to some extent.

THE CHAIRMAN: But is it right to say that generally those loans are applied for when a person may not qualify for such credit from other lending institutions, as you have mentioned in paragraph 57, the last sentence:

> "Frequently a dealer will not qualify for such credit---"

that is capital loans:

> "from other lending institutions."

MR. TRUDEAU: That is likely to be the case in some instances where the applicant is applying for a capital loan. Now the definition of a capital loan, as explained in this particular paragraph, is a loan made to a dealer who is in the business of creating desirable instalment paper that we wish to purchase, and in effect the loan is to contribute to inducing that dealer to favour us with all or most of his instalment paper.

THE CHAIRMAN: And these loans are for the purpose of improving his facilities?

MR. TRUDEAU: That is right.

THE CHAIRMAN: He may need the capital to construct a new building.

MR. TRUDEAU: Could be.

THE CHAIRMAN: Or for any other purposes.

MR. TRUDEAU: To add to his building or extent his service facilities.

THE CHAIRMAN: Even though this business may not be profitable to you, it becomes of importance to you for the ultimate effect of it.

MR. TRUDEAU: That is correct.

THE CHAIRMAN: Getting more of the dealers' business and allowing the dealer to expand his business.

MR. TRUDEAU: That is right.

THE CHAIRMAN: So that you don't regard this sort of loan as having some future expansion in a general way; it is more or less limited to the way you suggest?

MR. TRUDEAU: That is correct.

THE CHAIRMAN: Is there any future for it?

MR. TRUDEAU: We make similar loans that stand on their own feet, both credit-wise and from an income standpoint. There are what we call direct mortgage loans to industry; they are in the category of capital loans. But in that type of transaction we have entered into negotiations to lend money to a sound operation on the basis that we feel is safe, secure from our standpoint, and also profitable.

THE CHAIRMAN: Could you give us any idea of the rates of interest or the range of interest rates?

MR. ROSS: Mr. Chairman, I would like to go back and talk about some of the areas of interest income. Provided we stick with large balances, it takes on a connotation of more interest than service; but when we get down to the small consumer credit balances on electrical appliances and so on, it is impossible to deal in terms of interest, because a new car differs from an old car, balances are higher on new cars than on used cars. There are a lot of reasons why we don't consider interest rates. The charge then becomes to a great extent one for service.

But in these large industrial balances I think the going rate at the moment, competitively, is a 6 per cent flat rate. The charge is one-half of one per cent per month, which, as Mr. Trudeau said, is 11 per cent per annum.

We are in a competitive market, and for a particular reason somebody may get it at 9 per cent, at 8½ or at 10, but by the same token, as the balance comes down the rate of return goes up. When you get down to, say, $5,000, you might be getting 12 per cent. But when you get down to the smaller balances and endeavour to explain this in terms of interest per annum, I think it is unrealistic.

In so far as capital loans to dealers are concerned, which is an assistance to get them into business, keep them in business, or let them enlarge their business, it is a competitive thing, and the rate is, say, 6 per cent, 6½, or 7 to 7½

per annum.

THE CHAIRMAN: That does not include the service charge.

MR. ROSS: There is no service charge; it is straight interest per annum, from 6 per cent. If you get a real good dealer, who is a good trader, and competition is tough, it might be even slightly less than that. In other words, we are in a competitive market and have to get all we can get, provided it is within the law and provided the dealer will pay it.

In so far as the loans on real estate, on interim mortgage financing, and heavy equipment, the loans spread over 3, 5, 8 or perhaps 10 years. I think 10 per cent per annum would be a good figure, though that could vary 2 per cent either way. 10 per cent would be the range of charges we get. But to go into the consumer end of the business would be to depart so far from the philosophy of interest per annum, it just does not make sense to talk about it.

THE CHAIRMAN: Are you familiar with two companies in the United States, the James Talcott Corporation and Walter Heller Company?

MR. ROSS: Yes, slightly familiar.

THE CHAIRMAN: I understand that they make loans to finance inventories and receivables to the manufacturer and wholesaler, and their charges range -- at least this is the information I have -- between 10 and 15 per cent.

MR. ROSS: I think that is correct.

THE CHAIRMAN: Does that indicate anything in particular?

MR. ROSS: That is a different type of business. That would be factoring or commercial financing, which is the handling of accounts receivable and inventories. Again, there is a lot of service included in that 10 or 15 per cent, but those are the rates they make. Sales finance companies in Canada are not in the type of business that Talcott and Heller are in, not to a very great extent.

THE CHAIRMAN: They have a subsidiary in Canada.

MR. ROSS: Yes, they have a partially owned subsidiary in Canada, known as Industrial Talcott.

THE CHAIRMAN: Has that developed a large area of business, or is it in the early stages?

MR. ROSS: It is in the early stages; it is coming, but slowly. Incidentally, the rates are similar to or less than their charges in the United States.

COMMISSIONER LEMAN: Mr. Chairman, may I ask a question?

I don't want you to misunderstand what I am really asking for, so far as this Commission is concerned, and in order for us to understand how you operate in your various fields of loaning.

You have a long discussion here about the way finance companies can disclose their charges, and you may be talking about the way it would be done

vis-a-vis the public. But we on the Commission are not exactly the public, and that is why I am talking about ranges of interest rates in practice -- the effective interest rates to the companies.

So far as the public is concerned, you have in paragraph 87 (3), subdivisions (a), (b), (c) and (d) the argumentation there about disclosure of interest rates. I am wondering if in the eyes of the public perhaps the thought has developed that your effective interest rates are higher or lower than they really are.

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MR. ROSS: Are we into this subject of disclosure now?

COMMISSIONER LEMAN: No, I am not. I am just saying, I wonder if by creating a little mystery around the problem of establishing an effective interest rate, the public's reaction to the mystery is usually, "These people are charging more than they are willing to admit." Could that be the reaction?

MR. ROSS: In so far as disclosure is concerned, we feel there is such a wide variation in the interest rate per annum that the difference between the cash price and the time price -- be it this type of equipment or a $200 used car or $5,000 new truck -- there is a big difference, the area is so wide there is little use in trying to establish a per cent per annum to it. Because if I buy a home for $50,000 and give the seller a note for $50,000, payable in 60 days, I think that is interest. But when I call a plumber to put a washer on my tap and he puts it on, and it is ten cents and he charges me $5.10, then that is service. That is when we are down into the financing of these smaller balances. It is much more weighted to the service end than the interest end. I would like to go one step further and say that the sales finance interests for 30 years, to my knowledge, have always made full disclosure of the difference between the cash and the time price to the purchaser.

There are exhibits in our brief as to the contract forms that are used, and they have been used for a great number of years. It shows the cash selling

price, the down payment, the unpaid balance, what is added for insurance -- and that is specified as to what the insurance coverage is -- and we have a finance charge which makes a total deferred balance which is repayable in so many instalments over so many months. There has always been full disclosure of finance charges the dealer makes to the public.

COMMISSIONER LEMAN: I recognize the difficulty, and I know it is not a simple problem. But if you find it difficult to discuss this range of effective interest rates, would you be willing to file something with the Commission, discussing this thing and giving us a broad approximation of how, in practice, you end up earning on the various types of lending activities.

MR. TRUDEAU: In the area Mr. Ross was commenting on it is relatively simple when you get into the larger industrial transactions. I think that he very clearly covered that; there is a range. Even the normal charge of 6 per cent flat rate for each twelve months, the actuarial yield return on that reduces as the term increases. So that with a 10-year transaction a 6 per cent charge would be very close to about 10 per cent.

COMMISSIONER LEMAN: I sat down and came to the conclusion, all by myself, that 6 per cent on a 12-month loan would give 11 per cent. But someone told me that in practice on those loans you probably end up earning somewhat less than 11 per cent. So, what I would like to know is if the Council can

tell the Commission, in a supplementary paper you might send to the secretariat, what, in practice, is about the range of the earnings per dollar invested?

MR. ROSS: We will try to do that.

MR. SAUNDERS: I think it is the use of the word "interest" which confuses the issue, because in the sales finance business we do not think of our charge as interest; and, in fact, it is not interest. In our lending operations -- whether it is a capital loan or wholesale, or chattel mortgage loan, or loan against real estate -- there is, of course, interest involved which does have a part in our transactions. But our charge originating out of a transaction between a buyer and a seller is not exactly in the nature of an interest charge; and I think that is perhaps where this issue is a little confusing.

MR. ROSS: If this is on the subject of disclosure, we have some more we would like to say about it.

THE CHAIRMAN: That is a big point and is yet to come.

COMMISSIONER LEMAN: I am not discussing disclosure.

MR. ROSS: Fine. We will try to produce that information for the Commission.

THE CHAIRMAN: Has it ever been the practice of any of your companies to take an equity position in commercial and industrial machinery, and that sort of thing?

MR. TRUDEAU: To my knowledge, no. We do not do it, and I do not know of any company that does.

THE CHAIRMAN: I just wanted to clarify that.

MR. TRUDEAU: Yes.

THE CHAIRMAN: What about leasing equipment? That is quite a popular method of acquiring machinery and equipment for a manufacturing concern.

MR. TRUDEAU: It is more a popular subject for discussion than a popular method. This is true, even in the United States, where the largest equipment leasing company, as I recall it, does not acquire any more than $20 million or $30 million of assets in a year, which is relatively small for a country the size of that one. In Canada four or five -- no, I guess probably as many as eight or ten of our members are in the equipment leasing business to some greater or lesser extent. I do not think any of us have any large volume of that business on the books.

THE CHAIRMAN: Are there any advantages in a leasing arrangement as opposed to the sort of loans you generally make?

MR. TRUDEAU: There can be some advantages. Because of the fact that our chartered accountants still either make no mention of leasing obligations or, if they do mention them, they are in the form of a notation at the bottom of the balance sheet; so, in effect, a leasing transaction makes the balance sheet look better because it does not show the fixed asset below the line, on the left side of the balance sheet, with certain direct liabilities on the right side of the

balance sheet. It makes the balance sheet look as if there is far less debt to worth than there might be. On the other hand, I think many of us in looking at statements today are much more conscious of the fact there could be some lease obligations, and we do dig in further and find out what they amount to and deal with the credit accordingly.

The other kind of advantage that you hear about, that might have some merit in some instances, has to do with income taxes. About all I can say about that is that there are times when the timing of the payment of taxes can be juggled to some extent, legitimately, but in many of those instances what might be an advantage to the lessee winds up as an equal or off-setting disadvantage to the lessor. So, in negotiating these lease transactions the lessor has to be alert enough, when agreeing to terms and options and whatever else might be included in the transaction, to be certain that what he is giving as an advantage might not turn out to be a serious disadvantage from his standpoint as lessor. Beyond that we see a bit of advertising to the effect that in leasing you do not need to have an initial equity in the equipment. After all, if a user of equipment has good enough credit to justify some one in our business in passing credit, it would not make any difference whether the transaction was with leasing language or conditional sales contract language. It does not make the credit any better. That is just one of the things there is more talk about than anything else.

COMMISSIONER LEMAN: You do not think that the structure of our corporate income tax has put a definite bias in favour of leasing?

MR. TRUDEAU: No, sir.

COMMISSIONER GIBSON: Are you being pulled more and more into this leasing business by purely competitive factors?

MR. TRUDEAU: The competitive factors that probably pull us into it more are the aggressive sales solicitations that some manufacturers get together. In other words, they find business is a little difficult right now, and maybe the thing to do is not to talk about the selling and they say, "We will lease it to you". To that extent more and more people want to talk about it. From an actual standpoint, at least to my knowledge, there is not a lot of equipment leasing.

MR. ROSS: I would say there is a lot of leasing talked about because there seems to be a feeling that in here somewhere there is a saving for me. When the accountants are through with their calculations it usually works out it is just as good or it is better if it is purchased.

MR. TRUDEAU: Very often the lessee wants all of these advantages that he has heard about, that are supposedly inherent in leasing. But, at the same time, he wants the residual value in the equipment and a right to it, and does not want to lose his right to that equipment. So, in effect, he wants all the advantages but he still wants the equipment. When he really analyses the transaction from all aspects

he finds he is better off to buy. As a matter of fact, on Saturday afternoon I saw quite a bit of the details of a relatively large-sized transaction that came to us which had to be leasing -- nothing but leasing would do. From what I have just heard, now they are going to buy the equipment.

COMMISSIONER BROWN: How about car fleets?

MR. TRUDEAU: That business is growing and, in my opinion, will grow more. But when you are in the business of renting automobiles you are doing far more than just selling a finance service. You are using your ability to buy the automobiles right, at the right price and properly equipped, not over-equipped, just a car that will do a good, basic job, depending on what the fleet operator wants. You are also getting up an organization of people that can merchandise used automobiles, and in the business of renting automobiles you are not renting the entire usefulness of the asset, but only a part of it. The fleet automobile operator leases only from 23 to 28 or 29 months, and there is far more useful life in that vehicle at that time, and it must be sold to someone else. So the leasing company must be in a position properly to merchandise the sale of these used automobiles and get the right price for them. The first thing the leasing company offers is a fleet management service which can be quite worthwhile, to the extent that proper reports are turned over to the fleet operator monthly, semi-annually, annually, giving him the exact costs, on a per mile basis, of what each is costing, and

broken down into various kinds of cost. So, when you are selling a fleet leasing type of deal you are far away from selling money. Many of the lessees are in a better position to borrow money than we are ourselves; and many are far bigger than we are, but they are buying a service.

In the equipment leasing business we are not in a position to say that we are experts in the purchasing of any kind of machinery and equipment. The user of that equipment must negotiate the price for a transaction, must decide what kind of equipment is to be included on this particular gadget that he is buying, and he must assume all the risks of possible obsolescence and everything else. He is accordingly agreeing to pay the lessor the lessor's investment in that machine, plus some cost for the money the lessor has to borrow, plus a profit to the lessor, and must agree whether he is going to need that machine or not that must be paid for over a certain period of time, and that at the end of that period whatever residual value is left in the machine or piece of equipment remains in the hands of the lessor.

COMMISSIONER GIBSON: I take it, from what you have said, you have a certain lack of enthusiasm for this business. Is the pressure from automobile dealers who have entered the leasing business and the pressure of competition pulling you into this further or not?

MR. TRUDEAU: I did not feel there was a lack of enthusiasm. I think there is a real future to

the leasing of automobiles.

COMMISSIONER GIBSON: Well, perhaps you have just pointed out the difficulties.

MR. TRUDEAU: Yes, there are problems, but it is a good business. I think a good part of that business belongs to the automobile dealer. That kind of leasing transaction which includes full maintenance and service is the kind of leasing transaction that the automobile dealer can best handle.

COMMISSIONER GIBSON: And get his financing elsewhere than from a finance company?

MR. TRUDEAU: Not necessarily. We are prepared to work with the automobile dealer who wants to be the lessor of a fleet, and we are doing it. That would appear statistically in our outstandings, pretty well in the retail automobile paper. I do not think we have pulled it out. In that instance we are not the lessor; the dealer is the lessor.

COMMISSIONER GIBSON: What are, in effect, leasing operations appear in your paper?

MR. TRUDEAU: Yes, that is correct.

COMMISSIONER BROWN: They appear as retail and not wholesale financing?

MR. TRUDEAU: That is correct.

COMMISSIONER GIBSON: Would this be a sizable proportion of the retail paper now?

MR. TRUDEAU: It would represent quite an amount, but still a relatively small percentage of the total. I would almost hesitate even to guess, but in a few instances I can think of a couple of dealers

where as much as one-third of our outstanding with a particular dealer is in his leasing operation; but that is the exception.

COMMISSIONER BROWN: In this case it is the dealer who is on the paper?

MR. TRUDEAU: The dealer is the owner of the vehicle; he is the lessor.

COMMISSIONER BROWN: And this is in large amounts because he is doing it on a fleet basis?

MR. TRUDEAU: In some instances they limit their leasing business to small fleets of professional people, and the kind of automobile user that will keep the car in the area close to the dealer's establishment, because the dealer wants to be able to service it.

COMMISSIONER BROWN: What sort of interest rate comes into the picture on this sort of transaction?

MR. TRUDEAU: I would guess about eight or ten per cent would be average. There might be some of it a little less than that.

COMMISSIONER BROWN: In other words, it is somewhere between the straight wholesale rate and the normal retail charges?

MR. TRUDEAU: That is correct, because in that business we are not collecting; we are permitting the dealer to collect for us and, in effect, we have a bulk type of transaction.

COMMISSIONER BROWN: Do you do this on the basis of an interest rate or on the basis of a charge?

MR. TRUDEAU: Usually, as an interest rate.

THE CHAIRMAN: In paragraph 115, and the following paragraphs, you have a considerable amount to say about the Industrial Development Bank. I do not know whether I want to deal with these various paragraphs in detail, but I think that there you very clearly set forth your view as to the sort of competition you are faced with from this bank. However, I would like your views on this. In the case of financing machinery and equipment, and such things as the Industrial Development Bank is entering into, assume the cost of financing through the ordinary channels, including finance companies, is a considerable amount, and assume that on the face of it it looks as if it is exorbitant, which may be perfectly justifiable from your point of view and you could not do it for anything less -- from the point of view of the public, who are in need of financing of some kind, suppose it appeared to be exorbitant and that through the Industrial Development Bank financing can be done at a more reasonable rate: would you think, under those conditions, that it is unjustifiable to permit the Industrial Development Bank entering into this field at all?

MR. ROSS: Yes, Mr. Chairman, we certainly do. The Industrial Development Bank was formed for the purpose which was to fill a gap and our contention is that they have crossed over into the field of private enterprise to a very great extent, and this has represented a very serious loss of business to the sales finance companies.

THE CHAIRMAN: Just a moment. I am assuming when I say that the finance charges are very high -- and it may be that you can convince us that your finance charges are not on this scale at all -- but if they becomes what you call usurious and, of course, there may be different opinions as to what that may mean, but if you get to a certain point where it is almost inconscionable that people should be asked to pay such high prices for borrowing money, and suppose it reached that point, would it not be justifiable for some government institution to intervene?

MR. ROSS: I think that the rate that business should pay is the best that they can get in the competitive market, and these are sophisticated borrowers, I presume, which we are talking about and they are perfectly capable of judging for themselves whether the rate is something which would be an assist to their business or not.

Now, in so far as our rates are concerned, we feel that if we could obtain our money at the same cost as the I.D.B., and if we could obtain it without the necessity of prospectuses and other

expense, and if we didn't have to pay corporation income taxes, and if we didn't have to make a return on equity, which would draw further funds into our business, that our -- I think last year, 1961, that the return of the I.D.B. -- assuming income taxes were paid -- would be 2 per cent per annum on their equity in retained earnings which, of course, would put any profit enterprise out of business because they just couldn't draw money from the capital market, so that the rates that we charge we think are very, very fair, they are competitive ---

THE CHAIRMAN: I am not suggesting they are not fair, but on the other hand the amount of cost of borrowing money might be considered by the public generally as having reached a point that is exorbitant and people should not be asked to pay that much for borrowing, and if the state can intervene and provide money at cost -- according to their way of figuring cost, as you say, no income taxes and no profits, really, or it would be very small -- that credit would be dispensed at a cost to borrowers of a certain class?

MR. ROSS: If the situation in the market were such that a business who is justified in obtaining credit, be it loan or sales credit, that there was not sufficient competition to supply him with what he needed at a conscionable rate, then I would say perhaps the state should intervene, but competition in the open market is such and it is growing month by month and year by year, there are

broader and broader services available to small and large businesses generally, and the best rate that he can get in a very competitive market I think is a conscionable rate.

He is a sophisticated borrower; he is free to shop around, he knows what he wants, but in our experience the reason we lose customers to I.D.B. and the reason they handle business which we normally and traditionally had, is purely a matter of rate, and the difference is made up of the facts I mentioned, but the rates, I think, for that generally would be similar to the rate that he would pay if he were going out to buy a $100,000 piece of equipment, but if the transaction is such that any sales finance company could get a very high rate we, by the very nature of that, wouldn't want the transaction because obviously it is not the type of business from a credit business standpoint we would want on our books.

COMMISSIONER GIBSON: What sort of differences in rate would lead to such transactions; one per cent, 2 per cent?

MR. TRUDEAU: 3 to 5 per cent.

COMMISSIONER GIBSON: A 3 to 5 per cent difference in rate?

MR. TRUDEAU: Per annum. In I.D.B. now I think it is 7 per cent simple interest depending on the size of the transaction, and when we get into this industrial business we range probably in the

neighbourhood of -- on real large deals -- as low as 9, 9½, on up to 12.

COMMISSIONER GIBSON: Do you see many actual transactions?

MR. TRUDEAU: I have before me my company's figures for 1961, and last year I.D.B. paid us off on 71 transactions for $883,000. In addition to that we provided an umbrella on 15 other transactions they were in on for a total of $900,000. When I say we provided an umbrella, we extended the credit approval to place the purchaser in a position where he could order the machinery to be built, and in some instances to be imported, get his plant all set, while he was negotiating through all the red tape which was felt necessary to get the I.D.B. approval, which he got.

The most discouraging thing about the payouts is not only the loss -- in this particular instances of 12 months it was $883,000 of outstanding debt -- but each time I.D.B. pays us off, we lose a customer.

I can think of one transaction of a purchaser in the Prairies that had been using our facilities for a period of eight years to finance 22 different purchases of equipment and machinery for a total purchase price of some $800,000 to $900,000 over this period. He owed us $200,000 at the time I.D.B. paid us off, and they advanced him a total of $300,000 on a loan which we would have been very happy to handle, and what we run into

when these loans are paid off is that with every one of them we lose a customer, so we don't know how much it is costing over-all and this is in an area that we feel we are well equipped to service.

COMMISSIONER GIBSON: How many of these 71 customers would you be just as happy to lose, or would you know if there were some of them which were pretty borderline?

MR. TRUDEAU: Very few, but there were some.

COMMISSIONER GIBSON: Most of them were good business, in your estimation?

MR. TRUDEAU: Absolutely.

THE CHAIRMAN: Well, your position -- to carry it a little further -- would amount to this; if a person wants to set up a business or expand his business and can't afford to borrow money at the market rates that apply to his position, then he shouldn't be allowed to borrow money?

MR. TRUDEAU: I don't think that that is what we said here.

THE CHAIRMAN: No, but wouldn't that follow?

MR. TRUDEAU: I don't know of any one of these that couldn't afford to pay the rates.

THE CHAIRMAN: Well, if they could afford to pay the rate , that is ---

MR. TRUDEAU: We wouldn't be happy in any transaction where the buyer or the borrower-- in the case of a direct loan -- couldn't make enough profit, produce enough income which would be ploughed into our economy to make the transaction worthwhile

from his standpoint; if it is not a good transaction for the borrower or for the purchaser of the machinery, it is certainly not a good one for us. This is one of the basic facts of lending to business. We don't want ---

THE CHAIRMAN: Your position as you put it is that these borrowers who went to the I.D.B. in most cases -- if not in all cases -- were people who could have afforded to pay the market rates, but apparently thought they could save a little money by getting it from the I.D.B.?

MR. TRUDEAU: That is right.

COMMISSIONER MACKINTOSH: Have you any notion of the fraction of I.D.B. business which is in this competitive band?

MR. TRUDEAU: I don't know how we could find out, sir.

COMMISSIONER MACKINTOSH: We can ask them!

MR. TRUDEAU: Because they must get into many transactions that we don't know about and we would have no way of knowing how much additional financing they have done with those customers of ours that they took away from us over the past three or four years, such as this one I mentioned and there are many others like that, where over a period of years we have financed all this client's purchases of machinery and suddenly we lose the customer and it is finished and we don't see him again, and we have no way of knowing how much additional financing is done by I.D.B.

In these I.D.B. transactions we have a couple of things to face once they acquire the customer, and one is that they penalize him if he pays off ahead of time; they want to carry him on their books as long as possible and, secondly, they generally in their documentation tie him up so that he cannot finance his future purchases through a private source, he has got to go back to I.D.B.

COMMISSIONER LEMAN: I will ask a reverse question and ask if you have seen cases of people who haven't a legitimate need for credit and where your industry couldn't accommodate them and that it is logical they should be accommodated by I.D.B.?

MR. ROSS: I am sure that credit, being a matter of judgment, that I.D.B. have a lot of transactions on their books which we wouldn't have handled and that, conversely, we have a lot of transactions on our books which perhaps they wouldn't have handled, because credit is a matter of judgment and two institutions or two people might not think alike on any particular transaction at all.

MR. SAUNDERS: I have seen transactions where the potential borrower comes and says, "I am thinking of going to I.D.B., but if they turn me down will you give me the money?" or they say, "I am waiting for an answer and it might take two months; meanwhile will you give me the money for two months, and if at the end of two months I.D.B. approves it, we will pay you off out of the proceeds."

Some of these transactions which I can

think of were definitely of the type that I.D.B. should have handled and not a finance company.

Also, they may be located so far away from normal markets that they supply a basic need to a small community, but they are not really at the stage where they are an economic function of a commercial business, but there may be reasons why that community should be supported, or there may be a new invention of the type which may be in the national interest but it may not be commercial for a certain period of time. There may be reasons other than strictly business why this type of a venture should be encouraged; this is the area where I think the I.D.B. was originally intended to function.

THE CHAIRMAN: You real complaint is that the I.D.B. in the instance that you have mentioned has loaned money to people who at first tried to get it from you but thought they could get it more cheaply from I.D.B., and for that purpose only, and that they could have afforded to get from you?

MR. SAUNDERS: Well, that certainly is often the case and I don't think that a government enterprise like the I.D.B. was basically entitled to compete with free enterprise purely on a matter of undercutting the rate.

THE CHAIRMAN: You say that is what they have been doing?

MR. SAUNDERS: That has been to some extent the effect of it.

THE CHAIRMAN: These instances you mention?

MR. SAUNDERS: That is right.

COMMISSIONER BROWN: Would it be fair to ask a question whether I.D.B. competition has brought down your rates in this area?

MR. SAUNDERS: I would say it hasn't. Our rates haven't changed materially in this area since before the I.D.B. was really as active as it has been lately.

MR. TRUDEAU: Our rates in the field of industrial financing are relatively sensitive to the ups and downs of the general money market and the availability of funds over the years, and there has been no difference in our rate structure because of I.D.B. competition.

I might add this; as far as I.D.B. is concerned, I wonder why a government agency needs to have a strong sales type of advertising programme in order to sell its wares in competition with us? I wish I could afford the same advertising budget and have as many good business-developing ideas in our advertising as they have; and, secondly, I wonder why -- if they are going to render the kind of service that they are prepared to do at the price that they are prepared to take it -- why they need so many offices? After all, it would seem to me that anyone from the interior of British Columbia could get to Vancouver in a matter of hours if he wanted to negotiate a loan, and I wonder why they need offices in the interior of British Columbia? We have found that we give capable service to the interior of

British Columbia with one office in Vancouver handling industrial financing and with only 12 offices across the country. I believe that Mr. Ross's company only has 15 or 16 offices exclusively in the field of industrial commercial financing, and the largest company handling this type of business in the United States covers the United States with 22 offices and do an extremely capable job.

COMMISSIONER GIBSON: Mr. Trudeau, are those figures you gave applicable only to your own company?

MR. TRUDEAU: Those are figures for my own company, yes, sir.

COMMISSIONER GIBSON: Would the other members of the Association have had similar experience?

MR. ROSS: Yes, we have. We kept an accurate record of this when the step-up in their activities took place during 1961, but the pay-outs that a sales finance company receives are not a matter of record, and in order to get those figures we would have to keep them as they occurred. Whether we have done that latterly, or not, I do not know, but the amounts we have paid out are all in relationship to the size of the company compared to the size of the company which Mr. Trudeau represents. We all have them, to answer your question.

Perhaps the point that concerns us mostly here is the human element in this thing. The I.D.B. people are, naturally, very fine people. They are intelligent. When you open an office -- I believe they now have 22, but when we prepared the brief they had 17 -- you cannot put staff in it and not expect some business to be done. If that business must come from the private enterprise sector then we feel some of it will sooner or later find its way to them. In other words, it is quite impossible for them, from a human element standpoint, to stick to the business for which the I.D.B. was established if there is not sufficient of that business to keep them busy.

THE CHAIRMAN: In other words, they will have to go out and get enough business to pay for the staff and the building?

MR. ROSS: That is right, but they should get it from the gaps that exist. That is our point.

THE CHAIRMAN: Whether or not there are gaps, you say they do everything possible to stimulate business ---

MR. ROSS: I think by virtue of their rate alone ---

THE CHAIRMAN: --- at least sufficiently to meet the costs of operation in that area?

MR. ROSS: That is right.

COMMISSIONER MACKINTOSH: Do I recall that it was in response to comments in the press and comments by members of the House of Commons that this institution was too conservative, that it did not go out and get business; that if it was going to serve the public it had to be more aggressive. I think the trouble is that they do not know who to listen to.

MR. ROSS: You heard that, yes, and that was during 1961. That was when their business went from $29.7 million to $47.5 million, but we contend that the large proportion of this big increase came from a sector that was already competently handled by private enterprise.

MR. SAUNDERS: I think in any period, and especially in one in which money is a little bit tight, there are people who would like to borrow money and who find they cannot get it. Perhaps this segment is

entitled to it, and perhaps it is not. I would be inclined to think that a large percentage of them would not be entitled to borrow the money under normal conditions. That type of organization might make a fair number of comments through the press and through representations, but, after all, the economy has to function on a reasonable basis, and it would be very easy for any financial institution to lend out all of its money if it did not expect to get it back. I am sure the I.D.B. credit policies are sound, regardless of the amount of capital or money it has available. There would still be a fair number of operations which would not receive support from it, and I think those are the ones that are complaining.

COMMISSIONER MACKINTOSH: My recollection is that they have had quite a fair record of losses, and they have been criticized as being too sound financially and not taking enough risk.

MR. SAUNDERS: That is a criticism that one is likely to hear.

COMMISSIONER BROWN: Is it your main thesis that the I.D.B. should cease to operate, or that its area should be confined more, or that it should charge a higher rate?

MR. SAUNDERS: We feel that the I.D.B. should operate along the lines its originators intended it to operate.

COMMISSIONER BROWN: Would you give us a definition of what you think this area should be, or what it was intended to be?

MR. SAUNDERS: We feel that there may be certain situations where money is not available on reasonable terms and conditions, as is stated in the I.D.B. charter, and that there still might be reasons why money should be provided for that enterprise. Now, the problem seems to be a definition of "reasonable terms and conditions". We have tried to supply one definition in the brief here, and there may be other and better definitions.

But, as I mentioned a few minutes ago, I can visualize, for instance, the development of certain industries which may be in the national interest and which might not be commercially feasible at this time. Such industries would fall into that category. There may be certain areas where there is a violent change in the economy and in which an industry has been established, and if that industry could not get assistance from some source other than a strictly commercial source the economy of that particular location would suffer so badly that it would hurt the national interest. Such would be an area for industrial development.

I do not think that it is in the normal type of commercial lending where there are many companies that the I.D.B. should operate. The members of our Association are only one group that supplies this type of financing. There are other groups as well. Some of this financing could very well be handled by investment dealers in the form of issued common stock or preferred stock. There may be other sources

as well.

MR. WILLMOTT: I think page 62 sets out our views, Mr. Brown. Towards the bottom of the page there are these words:

"We therefore make the following recommendations which, if adopted, would return I.D.B. to the role it was originally intended to fill without any adverse effects on the economy at large."

COMMISSIONER BROWN: You suggest the passing of a regulation defining the words "unreasonable terms and conditions" to mean terms and conditions available on the commercial market to persons engaged in a similar business to that of the proposed borrower.

MR. SAUNDERS: Yes. Let us say, for example, that there are two manufacturing companies engaged in any business -- let us say the canning business or anything, for that matter -- and one obtains his money from the normal commercial market and the other one happens to arrange an Industrial Development Bank loan. The one who has the I.D.B. loan is probably paying a little less for it than his competitor. This does not appear to be a reasonable situation, that one should be supporting or, in a way, subsidizing his competitor by providing the funds at a lower rate. This is the area that we are talking about.

THE CHAIRMAN: Is it possible to give a general idea of at what rate, compared to the I.D.B.

rate, the finance companies would have taken the business which they claim to have lost?

MR. SAUNDERS: Yes, that is definitely possible because there is a pretty formal established rate. First of all, on the question of pay-outs we know what the rates were because those contracts were on the books. I would expect they were mostly in the category of 6 per cent flat.

THE CHAIRMAN: The differential would be approximately what?

MR. SAUNDERS: It would be from 3 to 5 per cent.

THE CHAIRMAN: I think, perhaps, that that was mentioned.

MR. TRUDEAU: Yes.

THE CHAIRMAN: Do you think there is a small business financing problem that has not been met by the market?

MR. SAUNDERS: I am not aware of any such problem. Of course, there always are refinements possible, and the banking system, the finance companies and now the leasing companies are all trying to provide new services to small business as well as every other type of business. I think one hears a great deal about small businesses having difficulties in obtaining money, but I think that really applies to everybody. I would like to have a lot more money than I have, and so would almost every merchant or every business operation. It is much more comfortable if your working capital position is substantially more than what it is. In our case, for

instance, our own company was a small business not so very long ago, and we were able to attract capital and able to grow.

THE CHAIRMAN: The solution for a small business is to take steps to become a big business?

MR. SAUNDERS: If it wants to be big it should work in that direction. There are many people who are just as happy to remain small.

THE CHAIRMAN: With respect to the insurance arrangements that you have to cover your financing agreements, I understand from the brief that you deal through affiliates now to some extent; that you have had some difficulty with the regular insurance companies.

MR. WILLMOTT: Yes, that is correct.

THE CHAIRMAN: You have built up insurance companies which are subsidiaries of your own companies. Can you expand on that a bit? Why is it that the regular insurance companies have not been able to perform in this field?

MR. WILLMOTT: Mr. Chairman, their loss experience for some years was quite bad in our type of business and it made us, because we could not obtain the carriers, to set up our own companies to provide the insurance. I think in most instances since we have done that that it has been reasonably profitable.

THE CHAIRMAN: That is, your insurance activities have been profitable?

MR. WILLMOTT: Yes, sir.

THE CHAIRMAN: They have not been run just

barely at cost in order to provide the protection?

MR. WILLMOTT: That is correct. We charge, naturally, the standard premium rates that would be charged by any other general insurance company.

COMMISSIONER LEMAN: Is there a difference between what one would be looking for as to a good insurance risk in the purchaser of an automobile and a good credit risk? I do not know that you are saying that, but the fact that your particular insurance subsidiaries or affiliates have had a higher loss ratio would seem to come from the fact that what you study is the credit risk primarily, and the insurance risk secondarily.

MR. WILLMOTT: Speaking for my own company, the insurance is all underwritten just as it would be by a general insurance company. They have the right to refuse to insure a customer. It can be turned back, and they can be asked to get insurance elsewhere.

COMMISSIONER LEMAN: But suppose I ask my question in this way: Why would a good credit risk become a bad insurance risk?

MR. WILLMOTT: It could, yes.

COMMISSIONER LEMAN: Why would that be?

MR. SAUNDERS: There are circumstances, for instance, where a young person insures his car which may be his first purchase of a car. Such a person can be a perfectly good credit risk. He has steady employment and has had sensible financial transactions, but as we all know younger people are at the bottom end of the insurance risk tables. That is one example

of where there might be some difference between being a good credit risk and a good insurance risk.

COMMISSIONER GIBSON: The essential difference between your position and that of the regular insurance companies selling automobile insurance is that they weed out the ones they do not like from an insurance point of view, whereas you take all the ones you like from a credit point of view. Is that the reason why the loss experience is higher?

MR. SAUNDERS: I think we try to service our dealers, and maybe we will be inclined to take a little greater risk. We will not take a risk which we consider a bad insurance risk, but we will be more sympathetic to something that originates through our dealer organization, and we will try to assist that dealer's business.

COMMISSIONER GIBSON: Does the dealer get the normal commission?

MR. SAUNDERS: No.

COMMISSIONER GIBSON: So there is a reduction in your costs there?

MR. SAUNDERS: That is right.

COMMISSIONER GIBSON: That would help to off-set the losses due to greater risk.

COMMISSIONER MACKINTOSH: Is that the explanation for something that otherwise puzzles me, in that you turn the insurance risk over to people that specialize in credit risks and they make a better job of it than the people who are expert at insurance.

MR. WILLMOTT: The commission factor does

enter into it, actually.

THE CHAIRMAN: But the premiums are charged at the standard rate, are they?

MR. SAUNDERS: Yes, sir.

COMMISSIONER BROWN: As I understand it, Mr. Chairman, the premium charged to the purchaser is calculated on the standard rate, but the company gets 100 per cent of that premium instead of just a percentage because there is no commission involved.

THE CHAIRMAN: Yes.

MR. SAUNDERS: There is another factor in it, that when our insurance companies insure a customer who is financing a debt they do not have any credit problems at all. The normal insurance company is dealing with agents and the agents in turn are dealing with the customers, and there is the expense of the collection department which we do not have. We do not suffer bad losses as a result of insurance.

MR. WILLMOTT: In other words, the finance company pays the premium to the insurance company.

COMMISSIONER LEMAN: What does the insurance company do with it?

MR. ROSS: When we accept the risk of insuring a customer against physical damage we are insuring something in which we have a financial interest. This does not apply to ordinary insurance companies. We are there because we have a financial interest in the automobile, or whatever it may be. Because there is less discrimination from an underwriting standpoint for that risk then our loss ratio is higher.

COMMISSIONER BROWN: Are you trying to expand your insurance business at all to other than items covered by your contracts?

MR. WILLMOTT: Some companies are, Mr. Brown, but not all. Some are there exclusively to insure the business of the finance company, but other companies have spread out into the general field.

COMMISSIONER BROWN: Mr. Chairman, I think I interrupted a question of Mr. Leman which was only partially answered. He was asking how you invest your insurance premiums.

MR. WILLMOTT: Did you ask that actual question?

COMMISSIONER LEMAN: Yes. Perhaps you did not understand it in that way. You said that the finance company turns the premium over to the insurance company, and I asked what the insurance company did with it. I meant to go into this question. These insurance companies are regulated in the same way as any other insurance company is regulated?

MR. WILLMOTT: Definitely.

COMMISSIONER LEMAN: They are subject to the same investment limits, and so on. Generally, how do they invest their funds?

MR. WILLMOTT: In exactly the same way as any other general insurance company would.

COMMISSIONER LEMAN: They are not permitted to turn it back, in effect, to the finance company so that those funds could be used for financing?

MR.WILLMOTT: I do not think there is any law

against another company doing that with its funds, but ordinarily they invest them regularly in government bonds, and in the manner laid down by the Department of Insurance. Of course, they pay claims, and a good portion of the funds go in that direction.

THE CHAIRMAN: I would like to ask you a question with respect to the competitive position of the industry. There may be some other considerations than those we have been discussing which may be applicable to some extent. The loss of market position in the credit field may be attributable in some instances to facets in the makeup of consumer demand, for instance, or displacement by competing credit grantors. The declining portion of the total credit market of the sales finance companies, as outlined in paragraph 106, may in part be attributable to the declining portion of the consumer income being spent on consumer durable goods, because more consumers are paying cash, or because other credit grantors are taking the business.

These are suggestions as to some possible changes in basic trends underlying the business.

I don't wish to go into this in too great detail, but you may be able to make some comment on it.

MR. WILLMOTT: I take it that the indication there is that more people have been turning to the chartered banks for loans, and in turn more pay cash for their automobiles.

THE CHAIRMAN: You think that is one of the biggest elements?

MR. WILLMOTT: I would certainly say so.

MR. TRUDEAU: And also the credit unions.

MR. WILLMOTT: Yes, but primarily the chartered banks. That is shown by the tables, as to the tremendous increase in consumer-type loans outstanding

since 1958, primarily.

THE CHAIRMAN: In paragraph 111 (c) there is shown a relative decline in the importance of retail dealers, other than the department stores, in the consumer credit field. Have you any explanation for this trend?

MR. WILLMOTT: The paragraph goes on to say:

> "However, during the last ten years there has been a moderate increase in the credit provided by retailers (other than department stores) in comparison to growth in total consumer credit outstanding."

I think that the truth is, there are perhaps fewer automobile dealers providing credit today than there were ten years ago.

THE CHAIRMAN: What about the small loan companies? Do they play an important part?

MR. SAUNDERS: The small loan companies, yes, they do.

MR. FLANAGAN: In recent years they have become increasingly active in the field of durable goods financing. Sales finance companies notice this occurring frequently in the area of used car financing.

THE CHAIRMAN: Do they compete with you to any great extent?

MR. FLANAGAN: I would say that small loans compete with sales financie ~~companies~~ per se for the financing of durable goods. I think they are

definitely a competitive factor.

THE CHAIRMAN: Do you consider them very serious, or are they to a large extent dealing in other types of articles?

MR. FLANAGAN: I can perhaps answer by giving a personal opinion, and I would think in the majority of cases it would be shared by this group here. We have mentioned competition from banks and other sources. Competition from small loans, if it is sound economically , is something the industry must learn to cope with and compete with. As far as it being serious, all competition is serious, and you must do things to improve your service to the consumer to make sure that you maintain a reasonable segment of the market.

In my own company's case, one of our subsidiaries is a small loan company, but I can say that our sales finance company definitely competes with small loan companies of other ownership.

COMMISSIONER BROWN: Quite a number of sales finance companies have their own subsidiary consumer loan company, is that not correct?

MR. SAUNDERS: That is correct.

MR. FLANAGAN: I would think so.

COMMISSIONER BROWN: What proportion of the consumer loan business of your subsidiary comes through dealers that are tied to -- I use that term loosely -- to you?

MR. FLANAGAN: I would think that would vary with each individual member of this federation.

My company, for example, proportionately does a smaller amount of sales finance business than loan business. That is not true of these other companies -- the reverse is true.

MR. SAUNDERS: Your question was, what percentage of our customers in our small loan operation originate through transactions with our dealers?

I don't think a particularly important percentage. I cannot give you a figure, but it would not be a very high percentage, because our dealers supply us with our sales finance customers. It is more convenient for the dealer to write up a conditional sales agreement and satisfy a customer right there, than to send him to a small loan office to borrow money. He may desire that in a case where he feels there is some doubt about the credit, and he would rather have the company make the assessment to be sure that the customer gets the loan. As I say, it would not be a very important percentage.

MR. WILLMOTT: I think that is true for all the companies. A very small percentage of the loans of small loan companies originate through dealers. They are mostly direct loans to the public.

COMMISSIONER BROWN: This might be the place to open up a little discussion as to a reply Mr. Flanagan made to an earlier statement, about competition in the business, and that you were all looking for new fields into which to venture. Would you like to elaborate on that, Mr. Flanagan?

MR. FLANAGAN: I think a number of things have happened. For example, there has been the bank competition, and the growing intensity of credit union competition has arrived on the scene.

As indicated in our brief, most of our companies have diversified their services to embrace new areas of finance. Commercial lending has been talked about; some companies here have accelerated their activities in the small loans field. Incidentally, we are striving as a sales finance company to improve both the services we render to the dealer, and I think we would all agree -- although we think we do a good job -- we can always improve on it.

As we said in our brief, we recognize that the consumers and the commercial house all have diversified needs and desires. We found, for example, that our services in the sales finance field appeal to a certain section or a certain segment of the population that do not, for example, use credit unions. Because of that we think we have a definite function to perform for the general over-all progress of the economy, and we will continue to afford that type of service to that type of individual. There are, for example, some people who deal with us who use the banks for certain facilities, but would not necessarily always use them for the loan services they perform.

COMMISSIONER BROWN: What are the new areas you are thinking about?

MR. FLANAGAN: The only areas in my company ---

COMMISSIONER BROWN: Or is this too competitive a feature to disclose in front of this Commission?

MR. FLANAGAN: There may be some reluctance to express it here, but as far as my own company is concerned, we have isolated those efforts to the areas of interest included in our brief. There are no new efforts beyond that that we as a company engage in. Other companies here might have things that they would not like to declare.

COMMISSIONER BROWN: My question was prompted by your earlier suggestion that there were new areas you were planning to enter.

MR. FLANAGAN: As a company we have some competitive things that we are doing. As you suggest, I think it would be wrong for me to dislcose those here and from that point of view, with your permission, I would prefer not to comment on it. It is something we have to sell above our good competitive friends here.

MR. WILLMOTT: Mr. Chairman, we have a steel company and we are always looking for contracts for the steel company.

COMMISSIONER BROWN: You are not going to tie up the steel company with the automobiles you are financing? In other words, it is another branch for investment.

MR. WILLMOTT: That is correct.

I should also mention here that we have a substantial investment in the largest independent trust company in Canada. We also have two other insurance companies besides the one that deals exclusively in the Traders financing. So, we are branching out further into investments of that kind.

MR. SAUNDERS: In our case we have diversified geographically, in other countries. I think most of the companies -- although these are not important factors -- are more interested in whether there are other angles. There is quite a bit of diversification.

THE CHAIRMAN: We will adjourn now until 2 o'clock.

--- Luncheon adjournment.

--- Upon resuming at 2 P.M.

COMMISSIONER MACKINTOSH: The session is reconvened. The chairman may be a few minutes late but we shall proceed with our discussion. I think Mr. Brown had some questions.

COMMISSIONER BROWN: Yes, I should like to go on now to a discussion of the liability side of your balance sheets.

MR. WILLMOTT: Yes, sir.

COMMISSIONER BROWN: And deal first with the extent to which short-term secured notes have entered into your financing. It is obvious from the comparative balance sheets that you have supplied us with that this has been an increasing factor in your financing.

MR. WILLMOTT: Yes, sir.

COMMISSIONER BROWN: I wonder if you could give us a picture of the composition of the average size, where the money comes from, the average range of maturities, whether the companies have a preference for a book of some kind, and do they endeavour to build up an average maturity range?

MR. WILLMOTT: You are thinking particularly at the moment of the short term ---

COMMISSIONER BROWN: Secured notes.

MR. WILLMOTT: Well, it has been a very important source of money for all the companies, particularly the larger companies. The smaller companies have had to restrict themselves very largely to equity financing and to bank loans, with

some borrowings at a fairly high interest rate. The larger companies have developed a very substantial market of short-term money. It varies in interest rate with the availability of money and the general interest rates in Canada. We are particularly in the 30-day to 365-day field in the short-term market, with I think the largest portion of the money in the 90-day bracket. According to the statements here you will notice there have been several million dollars' worth of the notes sold and it has become a more increasingly important source since our bank loans have not been consistently available.

COMMISSIONER BROWN: Can you give us a picture of whether this money comes mainly from corporations or institutions?

MR. WILLMOTT: It is largely institutional money, although it comes from practically every source that you could think of. We have, firstly, on our own books money from all the religious bodies. We have had money from co-operatives and unions, credit unions, and I would go on record as saying we have had money from practically every type of industrial concern that you could name, and it varies in amount, usually from $50,000 to $2 million or $3 million in one piece.

COMMISSIONER BROWN: Is there a sort of concentration around any particular size?

MR. WILLMOTT: I would say the average would be in the $100,000 note, but there has been a substantial amount in the larger bracket.

COMMISSIONER BROWN: Is there a size below

which it is not economic to handle?

MR. WILLMOTT: According to our short-term prospectus we specify $50,000 or above, but we do accept amounts down as low as $5,000, which I think is probably the low for most companies.

COMMISSIONER BROWN: For most companies $5,000 is about the minimum?

MR. WILLMOTT: I think so, yes. We have had money, of course, from a lot of individuals also. It is not too often that you can receive, say, $3 million from one individual, but it has happened.

COMMISSIONER BROWN: Can you give us a picture of the extent to which this money remains with you; in other words, the extent to which it is rolled over to renewals?

MR. WILLMOTT: I do not think I could give a percentage of renewals, but I would say about 40 per cent does renew.

COMMISSIONER BROWN: Do you rather rely on these renewals at all?

MR. WILLMOTT: Yes, we do.

COMMISSIONER BROWN: How about the other companies? Are their renewals running about the same?

MR. SAUNDERS: Renewals in our company probably run about 40 per cent but the main reliance is not so much on the fact any particular note will renew but rather on the fact there is a pool of short-term money on the market and that it is revolving and the maturities are such that they do not all mature

on the same day, of course.

MR. WILLMOTT: Various companies have different methods of obtaining money. We deal through an underwriter and a sales group. There are one or two companies who sell the goods direct, but that is just a variation. From time to time if an individual company runs short of money it is liable to raise the interest rate a quarter which is apt to increase the flow of that company, and the other companies either follow suit or if they have enough they stay where they are, but usually there is no concerted raising or lowering of short-term rates among the companies.

COMMISSIONER BROWN: Although they all do it closely related to one another.

MR. WILLMOTT: Another point is that if the largest portion of money is in the 30 to 90-day bracket and you are getting filled up in there you will state that you will only accept money for 180 days or longer.

COMMISSIONER BROWN: Do you do that rather than alter the rates?

MR. WILLMOTT: We do that.

COMMISSIONER BROWN: Or do you also use a change in rates?

MR. WILLMOTT: A combination of both, actually. We try and maintain a certain mix of the new dates so that we are not all 30-day, 90-day. It extends up to 365 days.

COMMISSIONER BROWN: Some of the companies

go to the American market for short-term money, and I think an average of something like 21 per cent of the short-term notes are sold in the American market.

MR. WILLMOTT: I think we have all been in the American market from time to time, some companies more than others. The rate is apt to be cheaper, but you have to contend, of course, with the exchange premium on the dollar. Our company is inclined to stay out of the American market.

COMMISSIONER BROWN: These companies that do go into the American market where the funds are to be brought back into Canada for use, do they hedge the foreign exchange?

MR. WILLMOTT: At the present time I would feel they would hedge.

MR. SAUNDERS: We do not hedge. I believe some companies do hedge, but we do not. We assume that our American operations and our American borrowings will at various times get into balance, and they do. So we have not been hedging.

COMMISSIONER BROWN: That is why I made the slight differential about the funds being brought back to be used in Canada.

MR. ROSS: We do hedge.

COMMISSIONER BROWN: And is the differential you look for in rates the cost of the hedging?

MR. ROSS: I beg your pardon, sir.

COMMISSIONER BROWN: Is the differential in rates that you are looking for as between the American and Canadian borrowings, is that just to off-

set the hedging cost?

MR. ROSS: I think our short-term secured notes that are outstanding in American funds have been level for a long period of time. I do not think they have fluctuated very much, and the rate plus the cost of hedging would have to be in line with what is available in Canada in order for us to continue to do it.

MR. WILLMOTT: We have a small amount of short-term money in the United States which we keep rolling over in the United States so that we are not affected immediately by the change in rate except, naturally, for the interest payment. But that has traditionally been quite a small portion of the Canadian companies' borrowings in the short-term money market.

COMMISSIONER BROWN: In other words, this 21 per cent is largely going to be in Laurentide, is it?

MR. SAUNDERS: It is possible. I am not familiar with that figure. Is it in one of these charts?

COMMISSIONER BROWN: Yes.

MR. SAUNDERS: That must have escaped me.

COMMISSIONER GIBSON: Paragraph 165.

COMMISSIONER BROWN: Perhaps it is unfair to ask you to differentiate in view of the fact these are consolidated figures.

MR. SAUNDERS: There may be companies not represented here at the table who make up a good part of that.

COMMISSIONER BROWN: What sort of proportion of short-term notes would be issued with a 24-hour call?

MR. WILLMOTT: A very small proportion.

COMMISSIONER BROWN: Is this increasing?

MR. WILLMOTT: There is a tendency to be more requests for that 24-hour call, but it is still a small portion of the total. I would not say it would be more than 2 or 3 per cent.

MR. SAUNDERS: It is not very attractive to take it on a 24-hour call. I think the requests for it increase rapidly with the possibility of increasing interest rates, for I think the money is fairly well ear-marked, but if the general assessment of people who loan their money in the short-term market is that the rates a month from now will be substantially higher, then they want to have the privilege of calling it and putting it back.

MR. WILLMOTT: We put a little sticker in our confirmation saying that it cannot be called for the purpose of refunding at a lower rate, which may have some effect.

MR. ROSS: We are not in that 24-hour call market at all. I am informed too that 21 per cent was extremely high at the end of 1961, higher than it was before and higher than it has been since.

COMMISSIONER BROWN: All companies hold a certain amount of liquid investment against their short-term liabilities, including unused bank loans. Talking about short-term investments held against this, the short-term paper, is there any percentage you use or does this vary with conditions?

MR. WILLMOTT: You are speaking now of pur-

chases of investments to maintain a liquid position?

COMMISSIONER BROWN: That is right.

MR. WILLMOTT: No, I would say not, and I think it would be the same for the other companies. It depends on the tightness of money at the time. If we feel that it is going to become tighter then we are inclined to borrow slightly more on a longer basis and invest it in treasury bills or other government bonds, something that is liquid.

COMMISSIONER BROWN: Is this to protect yourselves against not being able to get new cash or is it to protect yourselves against meeting maturing obligations?

MR. WILLMOTT: Both, particularly not being able to get new cash, which is really the same thing.

COMMISSIONER BROWN: In other words, it is a perverse reaction to increasing the interest rate?

MR. WILLMOTT: To a certain extent, yes.

COMMISSIONER BROWN: In paragraph 141 of your brief you refer to wholesale paper being on a demand basis. Is this in fact demand paper that you can call on?

MR. SAUNDERS: The notes are demand notes.

COMMISSIONER BROWN: Do you ever in fact call them on demand?

MR. SAUNDERS: I think it has happened on occasions, but it is not the general practice because I do not think we would call on demand, let us say, to get cash. If we felt that a dealer was misusing the trust we placed in him in having inventory there, then

we would call it. That is the purpose of the demand feature.

COMMISSIONER BROWN: This sentence would indicate that you consider it part of your liquidity.

MR. SAUNDERS: We do to this extent, that even though we might not demand it it turns over very fast, and we do demand it whenever the dealer sells the car against which that loan is made, for instance, and as there is a turnover of product there is, so to speak, a demand, and we do not need to demand it because normally he forwards the money immediately anyway. Now, in a period when money tightens I think most companies will follow a policy of watching the inventory a little more closely for various reasons. Sales may slow down on their own and you do not want to see a dealer with too heavy an inventory because the interest carrying charges on the inventory becomes a serious item of his operation, and also there may be other reasons why it would not be too profitable to have too much money tied up in inventory. So, there is in a way a demand exercised but it is rather in slowing down approval for additional moneys to go into that segment.

COMMISSIONER BROWN: In other words, it is demand paper but it is the last sort of liquid paper you would realize on in a tight period?

MR. SAUNDERS: Yes.

COMMISSIONER BROWN: I was going to ask some questions about bank loans now. Perhaps other Commissioners have questions with respect to the short-

term paper that they would like to put on record now.

THE CHAIRMAN: Are there any further questions on this point?

Proceed, Mr. Brown.

COMMISSIONER BROWN: On the figures given on bank loans you show that on an industry-wide basis there were at all times some unused lines.

MR. WILLMOTT: Yes, sir.

COMMISSIONER BROWN: Now, this gives rise to the question as to whether there were in fact any companies that did not have any unused bank credit at any time.

MR. WILLMOTT: I would think it would be very unusual for a company not to have some unused lines of credit. The bank lines of credit have always been considered in the finance industry as something that one can fall back on in times of shortage of funds. I think the lines of credit established for finance companies on the whole have been higher than would be expected for industries because of the fact that money lending is our business and we always have to have a call on a source of funds.

COMMISSIONER BROWN: To what extent is this used as a backstop against your short-term note borrowing?

MR. WILLMOTT: I do not think we have a percentage, but we have always tried to maintain a very substantial amount of unused line of credit as a backstop for the short-term loans.

COMMISSIONER BROWN: There was some discussion

at one stage of the banks charging for this unused credit. Did this ever come about?

MR. WILLMOTT: Yes, sir. This year they suggested a form of standby fee which most of the finance companies did not take up. It was a standby fee, as I recall, which gave the banks permission to call the loan at the end of thirty days on a five-month repayment basis, in other words, a total of six months.

COMMISSIONER BROWN: What sort of charge was indicated?

MR. WILLMOTT: A half of one per cent.

COMMISSIONER BROWN: Did any of the companies take it up, that you know of?

MR. WILLMOTT: I believe that either one or two did, Mr. Brown.

COMMISSIONER BROWN: Would these be large companies or smaller ones?

MR. WILLMOTT: Medium-sized companies.

COMMISSIONER BROWN: The rest of the companies thought that they could rely on the short-term money market?

MR. WILLMOTT: Yes, that is one thing. The lines of credit have varied actually, and their availability. We have been restricted in our bank borrowings twice in the last five or six years, and actually, of course, at the present time there is a form of restriction on borrowing from most of the banks. In other words, I think the greater percentage of finance companies have been asked not to use their lines of credit if at all possible; and I think that all the sales finance companies are quite happy not to use the lines of credit if they can borrow the money in the market. This has been done. We still think our bank lines of credit are very important to us, and I hope this will be so for a long time.

COMMISSIONER BROWN: In the brief you refer to the condition in 1959, and I think it is paragraph 131, when there was a period when the

finance companies were not able to borrow on the prime rate. The expression you use is, "No satisfactory explanation was given" -- for this. Does this mean there was no explanation, or was the explanation, if given, unsatisfactory?

MR. WILLMOTT: There was a rather conflicting explanation that various banks did not seem to have the same reasons for the rate at that time. This is the time when our rate was 5-3/4 and when the prime rate was lowered to 5½ for other prime borrowers; but I do not think there was any concerted reason given by the banks for that fact.

COMMISSIONER BROWN: If you are relying on the banks, through the unused lines of credit as a backstop for your financing, is there any logical reason why you should not be charged for that?

MR. WILLMOTT: No. On the other hand, we do pay extra charges to the banks. I think all the large finance companies pay an activity charge, which is not usual among other types of companies, which returns a fairly high monthly fee to the various banks.

COMMISSIONER BROWN: Could you give us any figure? What is the detail as to what it amounts to?

MR. WILLMOTT: It amounts to one one-hundredth of one per cent on all cheques issued and all deposits made. In other words, if we issue a cheque for $1 million we pay the bank $100 for clearing the cheque.

COMMISSIONER BROWN: There is quite a bit in the brief about the increase in competition on the loaning end from the banks. Which came first? Was it the finance companies competing with the banks for deposits, or the banks competing with the finance companies for loans; or was there any relationship?

MR. SAUNDERS: I do not think there was any relationship as such. I do not think we are really competing for deposits, exactly. We take money in the short-term market, and we deposit it into the banks, so it is money which is deposited by the finance companies, rather than by the lender to the finance company; so I really do not know where the competition comes in.

MR. WILLMOTT: We cannot accept deposits.

COMMISSIONER BROWN: You mean you cannot accept deposits as straight deposits, but, in fact, are you not competing for term deposits?

MR. WILLMOTT: I think we have to admit we are, yes; and it has been very successful.

COMMISSIONER BROWN: I think it would be fair to ask you the question whether you think you should have greater freedom to compete with the banks for deposits and carry on the competition on the lending end; or whether you think the banks should be more restricted and leave you to the lending end. What are the arguments on both sides?

MR. WILLMOTT: I do not think we are actually complaining about bank competition in the

lending field. After all, there is a great demand for the banks to enter the field, and we have been very successful in the short-term money market. It has been a wonderful field for us -- perhaps with some detriment to the current accounts of the chartered banks and to their term deposits.

THE CHAIRMAN: Would you speak a little louder, please?

MR. WILLMOTT: Yes.

COMMISSIONER BROWN: In other words, you are not worried about this trend which appears from your own statistics, that your loans are going down and the banks' loans are going up?

MR. WILLMOTT: Yes, we are definitely worried about it.

COMMISSIONER BROWN: What was meant when you said you were not worried about the banks' competition?

MR. ROSS: We were not "complaining" about it.

COMMISSIONER BROWN: I am sorry.

MR. WILLMOTT: There is a difference.

COMMISSIONER BROWN: Why are you not complaining about it then?

MR. WILLMOTT: I would hardly think this was the place to complain about the banks' competition, actually.

COMMISSIONER BROWN: Mr. Harrold would like to know where you think the proper place to complain would be .

MR. SAUNDERS: I suppose, at the head office of the banks, and I think that some of us have done that. I do not think this question of competition is, perhaps, quite in focus. The banks, I think, through increasing their lending activities in this field, have broadened the field. I think the industry has grown more with the banks in it than it would have without the banks in it. I think, if there is one area we do not like it is that the general public has an impression that they get the money much cheaper from the banks. There is no doubt that banks are able to lend money cheaper than finance companies are. Their costs structures are different, and their lending policies may be such that they can do it; but we do not believe that the impression in the minds of the public is correct as to the difference between the price that is paid for the money to the bank and the price that is paid for it to the finance company. As such, we do not blame the banks for this. It is a fact of life; but it is a factor which has made competition a little more difficult.

THE CHAIRMAN: You position is that you do not object to fair competition; you believe in competition?

MR. SAUNDERS: Yes.

THE CHAIRMAN: And that principally applies to the I.D.B., in that you say that is not fair competition?

MR. SAUNDERS: Yes, that is correct. The

banks are free-enterprise organizations like ourselves, and they pay taxes and they do not look to public support for them.

THE CHAIRMAN: Just because at some times they may be making more headway than you are, nevertheless that is competition and you are prepared to deal with it with the best ingenuity you can devise?

MR. SAUNDERS: That is correct. It does not mean we will not try to compete in all directions. We believe in competition, and we are getting some right now.

COMMISSIONER LEMAN: I would like to ask you a question about what happens when money is tight. Have you found the short-term money market reliable when there was a squeeze on the banks and they were tending to try to slow you down? Did you then find the money market, at a price, was quite reliable for you?

MR. WILLMOTT: There have been only short periods of time when the short-term market seemed to dry up,that is a period of days. Provided we were willing to move the interest rate up a small amount it did seem to bring the money in. There are periods of time in a rising interest rates structure where individuals or corporations appear to hold back in placing their funds, because they want to get a higher rate, but once rates tend to settle down money seems to flow.

COMMISSIONER LEMAN: Let us talk about the market in Canada for that kind of paper. Does

it have sufficient breadth to make you rely on it under all conditions; or is it restricted to so few people it could become unreliable?

MR. WILLMOTT: It has not been unreliable so far. It could. There are more people using the market, and it started off with perhaps a few sales finance companies, but it has extended into the large number of industrial concerns that are also issuing short-term paper.

COMMISSIONER LEMAN: I was talking about breadth from the supply end rather than the demand end. Are there thousands of people buying this paper, or have you any idea how many people there are?

MR. WILLMOTT: Yes, I would say thousands, mostly in the corporation field, in the institutional field.

COMMISSIONER LEMAN: To go back to Mr. Brown's question about the banks. You say you are worried about certain aspects of this situation, but you are not complaining about these questions. Are there areas of the relative position of the banks compared to yours that you feel are a matter of regulation or control or structure, or do you have no real recommendations to make on that point?

MR. WILLMOTT: If you go back to the 1956-57 period, when the banks were, as I understand it, instructed to control to a certain extent consumer credit by the restriction of bank loans, we definitely object to that, and that is one of the points we

take up here. It was point 205 in the brief that I read this morning. In other words, we would much prefer to have a direct contact with the monetary authorities; and we also feel that any controls of that kind should be equally imposed on all -- the chartered banks themselves, the unions, the co-operatives -- and not just the sales finance companies.

COMMISSIONER LEMAN: Did not you just tell us that the banks are private enterprises, and you expect them to operate in their own interests where they see their interests lie?

MR. WILLMOTT: Yes.

COMMISSIONER LEMAN: Suppose you get into a period where money is tight and they have to start picking and choosing, or what we call "rationing" credit. What would you expect them to do?

MR. WILLMOTT: I would expect them to do what they are doing right now, and that is they are actually restricting loans to finance companies, and I would think that this time they are doing it themselves rather than on instructions from somebody else. We are told that at the present time all the chartered banks are experiencing a tight money period. If they are short of money -- and, naturally, I believe what they tell us -- we would expect them to ration credit.

COMMISSIONER LEMAN: Let us go back to the bank lines of credit system. Would you prefer it if the banks said, "We will charge you something, but this will be absolutely firm"?

MR. WILLMOTT: Our company felt if it was a one-year standby fee it would be much more equitable than, say, a six-months fee. Mind you, we prefer not to pay a standby fee at all for lines of credit, but if we have to we would prefer it on a one-year basis because of our future commitments.

COMMISSIONER LEMAN: But you feel it is a matter for you to negotiate with the banks?

MR. WILLMOTT: Yes.

COMMISSIONER LEMAN: And not a matter of regulation or that sort of thing?

MR. WILLMOTT: Yes.

COMMISSIONER BROWN: Could I go back to the question I asked? I gave you an alternative and you answered by taking the second half of the alternative. But would you be in favour of suggesting that your company should be permitted to take straight deposits?

MR. WILLMOTT: Yes, I would be very happy to have our company accept straight deposits.

COMMISSIONER BROWN: Under the same sort of regulations as the banks?

MR. WILLMOTT: Yes, it could not be done any other way. Actually, our charter at the present time does not permit us to do a banking business.

COMMISSIONER BROWN: No, I think that is standard under the Companies Act.

MR. WILLMOTT: Yes, under the Companies Act.

COMMISSIONER BROWN: I just want to know

whether you were prepared to compete with the banks in all fields, if given the opportunity.

MR. WILLMOTT: It is my personal opinion there are too few banks in Canada anyway, and that competition in that field would be good for the banking industry as well.

COMMISSIONER BROWN: Dealing with the competition by the banks in your field of lending money, do you think there are any factors inherent in the operations of the banks that give them a competitive advantage over you?

MR. WILLMOTT: I think one competitive factor is that they are able to borrow their money cheaper, on the whole. Their savings rate, of course, is much lower than our average borrowing rate. That is the main competitive factor, the availability of money at a cheaper rate.

COMMISSIONER BROWN: Have you any other factors you can think of?

MR. WILLMOTT: Their large number of branches is another factor. I think there are over 5,000 branches among the chartered banks, which adds to the competitive feature.

MR. SAUNDERS: I think they have a different relationship with their customers due to the fact that almost everybody has a bank account and as a result is in some contact with the banks, and where if they wish to do some business with that person they are already doing certain business transactions with them, and I would say there is a competitive advantage to it.

COMMISSIONER BROWN: Presumably they have to increase costs to offset this?

MR. SAUNDERS: They have, of course.

COMMISSIONER BROWN: Now, how about other sources of funds. Do any of the companies have lines of credit with other financial institutions such as the trust companies which you mentioned this morning, Mr. Willmott?

MR. WILLMOTT: If there is more of that, again it is strictly through short-term secured notes. From time to time we get money from all the trust companies in Canada, but there are no specific lines of credit to my knowledge with trust companies.

COMMISSIONER BROWN: Have any of the other companies any experience with standby lines with the trust companies?

MR. ROSS: The same experience.

COMMISSIONER BROWN: I wonder if we could now switch for a couple of questions to long-term debt. Why has this increased so much in the last three years?

MR. WILLMOTT: Well, it has increased, I think pretty well, in proportion to the outstanding receivables

and the fact that a number of the smaller companies have gotten larger and they have been able to get into the long-term borrowing range. I think that a number of companies have gone into the long-term market because of the bank lines of credit becoming a little less dependable.

COMMISSIONER BROWN: And they have done this at a time of high interest rates?

MR. WILLMOTT: Yes, it is unfortunate!

MR. TRUDEAU: And when the bank lines became undependable. In our case, Mr. Brown, this is exactly what happened; we went for the long-term market the last time at a time of high interest rates and at the time we first recognized the bank lines were not as dependable as they had been.

COMMISSIONER BROWN: Would you care to comment on the difference between your secured notes and your unsecured debentures; what companies seem to be able to sell them on roughly the same cost basis?

MR. WILLMOTT: Well, most of the sales finance companies have a regular basis for selling unsecured debentures and secured debentures. I think you are probably aware that for each dollar of capital and surplus, sales finance companies can sell $1 of unsecured debentures, and for each dollar of capital surplus and debentures, they can sell four times that amount of the secured notes.

The debenture debt has increased considerably in the last few years. A number of the companies have added features to the debentures, or they have increased

their capital by the attachment of warrants or issued convertible debentures or, in some cases, convertible preferred shares. Every time a convertible debenture gets converted, then you have a chance to issue another debenture!

COMMISSIONER BROWN: Two more?

MR. WILLMOTT: Yes, two more, that is right.

MR. SAUNDERS: I think most of the debentures have been sold on a retail basis to the public, whereas the bulk of the long-term secured notes have been sold to institutions, and normally in the same market there would be an interest rate differential perhaps of one-half a per cent between the same maturity of the company's debentures unsecured and long-term notes which are unsecured and institutions prefer the more secure position and the public seems to prefer a little higher rate. This, I think, has been the pattern in most countries.

MR. WILLMOTT: I think there are still a tremendous number of institutions that have the unsecured debentures.

MR. SAUNDERS: Yes.

COMMISSIONER BROWN: How about the matter of borrowing on a long term basis in the United States; is this done because of a differential in interest rates or because of the availability of funds?

MR. WILLMOTT: Well, it is a combination of both, actually. I think that the availability of funds has had a great deal to do with it. Our own company went to the States for long-term money and it

was because of the availability of money there, or the unavailability of money in Canada.

COMMISSIONER BROWN: If it wasn't available in Canada, there was no point in my asking about the differential in cost, then.

MR. WILLMOTT: It was still lower than the current interest rate, naturally.

COMMISSIONER BROWN: What sort of a differential would you expect between borrowing in Canada and borrowing in the United States for the same maturity?

MR. WILLMOTT: One-half to one per cent.

COMMISSIONER BROWN: In paragraph 159 you have this sentence:

> "As private companies, they (referring to the finance companies) are prohibited by law from inviting the public to subscribe for their shares or debt obligations."

Is this correct?

MR.WILLMOTT: I believe so.

MR. SAUNDERS: This refers to the private companies.

COMMISSIONER BROWN: Isn't G.M.A.C. a private company?

MR. SAUNDERS: No, I don't think so. They put out a prospectus.

COMMISSIONER BROWN: But that doesn't make them a public company.

MR. SAUNDERS: I don't know; I always felt that they were not a private company.

COMMISSIONER BROWN: Is there a legal prohibition against private companies borrowing from the public?

MR. SAUNDERS: I believe if you are going to borrow from the public then you have to produce a prospectus, and in order to produce a prospectus it is my understanding that you have to be a public company.

COMMISSIONER BROWN: What is involved? Is it very difficult to do this? I mean, it doesn't seem to me this is a major obstacle for a private company to put out.

MR. WILLMOTT: The fact they are a private company means that they cannot put out a debt obligation. They can borrow from the banks, but they can't sell secured or unsecured notes.

MR. SAUNDERS: Is it your question, would there be anything to stop them from becoming a public company?

COMMISSIONER BROWN: What is involved? It is not a difficult operation, is it?

MR. PAINE: Not at all.

COMMISSIONER BROWN: I was wondering what was the point of this sentence.

MR. ROSS: I think it is that they are small private companies at the start and that they don't have the facilities or the background to go out in this market.

MR. WILLMOTT: We were dealing with the 173 different companies in the business, of which a great

many of them are so small that they -- they are private companies and they don't issue their securities to the public.

COMMISSIONER BROWN: I gathered from Mr. Payne that this is not what it purports to say.

MR. PAINE: Technically there would be no problem.

COMMISSIONER BROWN: Technically there is no problem?

MR. PAINE: No.

COMMISSIONER BROWN: Thank you, that is all I have.

COMMISSIONER MACKINTOSH: If there are no other questions on that issue, I would like to ask one or two on the reaction of the industry and their customers to changes in credit conditions.

I notice in paragraph 195 that you say that the large companies have no difficulty in raising all the money they want if they are prepared to pay the price.

Then, in the fourth paragraph further on, paragraph 199, you say:

> "..there is a limit to which money will be borrowed by the sales finance industry when interest rates are rising sharply"

In the first place, is the emphasis on the "rising sharply" or do you really mean when rates are high?

MR. WILLMOTT: I think when rates are high would be the explanation.

COMMISSIONER MACKINTOSH: Or have risen sharply?

MR. WILLMOTT: That is right.

COMMISSIONER MACKINTOSH: What sort of limits would make you draw back?

MR. WILLMOTT: Well, I think the maximum rate has been 6 3/4 in the short-term market, which was slightly lower than the treasury bill rate at the time.

COMMISSIONER MACKINTOSH: I gather that both in the 1956-1957 period of fairly high rates, and in the 1959-1960 period, some of the companies, at any rate, borrowed at pretty high rates in the long-term market, over 6½ and 6 3/4 per cent.

In view of what you said earlier about the many costs of service and the variety of other charges in addition to mature costs of money, is it not pretty difficult to make a profit on your marginal transactions if you are borrowing a lot of money at more than 6 3/4?

MR. WILLMOTT: We would definitely, of course, prefer not to borrow at that rate.

COMMISSIONER MACKINTOSH: I think we can see that!

MR. WILLMOTT: In a rising market one can't depend entirely on bank lines, or the short-term money market, and when receivables are mounting it is definitely necessary sometimes to go into the long term market, and at that time some of the companies did find it necessary to go into the long-term market at the higher rate.

COMMISSIONER MACKINTOSH: Well, is this so much that it is a profitable investment, that the margin you think is adequate, or that you have a going business that you expect to last a good many years and you will cover this period even though it is not particularly profitable?

MR. WILLMOTT: Well, I think your explanation at first, Dr. Mackintosh ---

COMMISSIONER MACKINTOSH: You are in the business and have to stick with it?

MR. WILLMOTT: That is right.

COMMISSIONER MACKINTOSH: You can't pull back or can't draw out.

MR. WILLMOTT: It is very difficult to do that.

COMMISSIONER MACKINTOSH: Now, you made some other statements that appear in several places; in the period of tight money the larger companies were less hampered than the smaller companies that were dependent on bank borrowing. That didn't mean that the larger companies avoided high rates?

MR. WILLMOTT: No sir.

COMMISSIONER MACKINTOSH: Simply that there was credit available and at a price. They had some alternative source?

MR. WILLMOTT: Some of the smaller companies depend almost entirely on bank borrowings, so during a period of restricted bank lines they were in quite a serious position.

COMMISSIONER MACKINTOSH: Now, I think you

told us earlier also that among the types of business where the rates got down most nearly to interest rates was the wholesale business; that is the one where there is more interest rate and less service charge than in the others. How far do these follow the movement of short-term interest rates? Do they fluctuate pretty closely with them?

MR. WILLMOTT: Well, they fall ---

COMMISSIONER MACKINTOSH: Or do you just wade through?

MR. WILLMOTT: They don't fluctuate rapidly with the short term interest rates; they are more apt to follow the longer term rates.

COMMISSIONER MACKINTOSH: Would you say theyfluctuate fairly closely with long-term rates?

MR. WILLMOTT: For instance, we are just at the present time in the process of raising the wholesale rates after a fairly extended period of borrowing at higher interest rates.

MR. ROSS: I don't think our company could agree with that; I think we would feel that we are tied quite specifically to the short-term money rate and the prime bank rate.

MR. SAUNDERS: That would be our reaction, too; they lag a little behind the short-term money rate and they don't move quite as fast, and there would be no adjustment for a movement of one-quarter or one-half a per cent. When there is a definite trend they move up and down with that.

MR. TRUDEAU: The lag is longer in an up-trend;

with the costs trending downward you are faced with much stronger and faster pressure to reduce the wholesale rates, and competitively we are inclined to be a little slow, although I agree with Mr. Ross, that these wholesale rates are extremely sensitive to the short-term money rates.

COMMISSIONER MACKINTOSH: Competition based on your interest rate is from people who are a bit tardy in raising their rates and pretty nippy on lowering them?

MR. TRUDEAU: It is competition among ourselves.

COMMISSIONER MACKINTOSH: That is what I meant; that is what creates this faster movement in one direction than the other.

Now, passing from you to your customers, have you any impression as to how these changes in wholesale rates affect the customers' actions; does he try or is he able to limit his inventories to cut down to a hand and mouth basis, or whatever you call it?

MR. ROSS: I think the dealer makes his living from selling automobiles; if we are talking about the automotive industry, I think the difference between one-half or one per cent per annum on his inventory will not cause him to protest to the point where he will lose sales. The sales are the more profitable end, if he has to make a choice.

COMMISSIONER MACKINTOSH: Well, do you think it is true that when your wholesale rates were fairly low he treated himself rather generously in the way of inventory, and had a far gaudier show-room, than when rates were high without actually losing sales?

MR. ROSS: I think retail dealers try to keep their inventory in line with public demand, and what they expect that demand to be, instead of basing it on any slight different there might be in the wholesale rate from time to time. Does anybody disagree with that?

MR. SAUNDERS: Generally speaking, when the wholesale rate goes up it has a psychological effect, and they take another look at their inventory and say to themselves: "Well, now, this is going to cost me more money", and coincidentally with that happening I think many of us would encourage them to take a more careful view of their inventory because that is a time when we do not want to see too much of our money tied up in inventory either. There may be credit reasons which at the same time should make them show some caution in letting that inventory get too big for that type of material, but, as Mr. Ross has said, I do not think there is a direct correlation between those two things, although they do happen at around the same time.

COMMISSIONER MACKINTOSH: Does the wholesale financing extend into the used car business?

MR. SAUNDERS: Yes, it does.

COMMISSIONER MACKINTOSH: Would you expect to get a fair response in inventory from the used car lot as you would expect from the new car dealer?

MR. ROSS: I think all dealers, whether they be new car dealers or used car dealers, are going to keep inventory on hand in order to meet the demand, and in that respect the used car dealer is not much different from the new car dealer.

COMMISSIONER MACKINTOSH: Are there not more used car dealers whose inventories get a little bit out of hand than is the case with new car dealers?

MR. SAUNDERS: I would think, Dr. Mackintosh, that most used car inventories occur as a result of trade-ins. When we are talking about inventories getting out of hand it is possible for a dealer's inventory to get down to the level where, let us say, the average age of his cars is getting to be too old, and some dealers follow a policy of junking at a certain stage -- which I think is a healthy policy -- and others may try to sell those very old cars.

MR. ROSS: I thought your question was with respect to the used car dealer versus the new car dealer, but you are talking of a used car dealer's inventory?

COMMISSIONER MACKINTOSH: Yes, but I was not separating them.

MR. ROSS: Yes, I agree with Mr. Saunders.

COMMISSIONER MACKINTOSH: On the effect of cost and availability of credit on the dealer's

customers the evidence which you quote seems to be that on the whole the fluctuations in the industry are the result of a demand for the goods that are being sold, and you do not seem to produce very much evidence that this is modified seriously by credit conditions.

MR. WILLMOTT: I think it is set forth quite well in Section 191 of the brief, Dr. Mackintosh. It comes in under "Retail Finance Charges".

COMMISSIONER MACKINTOSH: Yes, I have a note of that summary.

MR. WILLMOTT:

> "(A) A distinct lack of uniformity as far as its response to changing short-term money costs on the part of the sales finance companies is concerned. At best the finance charge trails the ups and downs of short-term interest rates paid by the companies, and there is no consistent (or uniform) behaviour on the part of the companies reporting finance charges in sufficient detail."

Then Section (C) is:

> "The retail finance charge itself appears to be more sensitive to long-term rates, or basic trends in the average interest costs of the sales finance companies."

COMMISSIONER MACKINTOSH: Yes, that was the section I had in mind. In other words, your

general view is that with tighter money a rising interest rate arises from the same set of circumstances which builds up the demand for automobiles, or the demand for other things, whatever they are, and that demand is really not controlled in any great degree by the interest rate. You say that the retail finance charge appears to be more sensitive to long-term rates or average interest costs. Is there any evidence that these changes in the finance charges have any marked effect on the customer except, perhaps, occasionally diverting him to another lender if you get out of step?

MR. SAUNDERS: Dr. Mackintosh, we are talking here about the charge which we make to our dealer. He is in a position to set his rate if he knows what we are going to charge him. He may or may not pass on any decrease or increase to his customers. Our main interest here is if our costs rise then we must charge the dealer more in line with what our costs are. If our costs fall then competition immediately will force us to quote the dealer lower rates. So, the sensitivitiy occurs one step removed from the actual purchaser of the equipment, and just to what extent it is passed on in either case I could not say.

COMMISSIONER MACKINTOSH: I am not trying to find out whether there is something you ought to be doing which you are not doing; I am just trying to find out from your experience what happens in the market, and you say there is a chance that the

dealer absorbs, in trying to make sales, some of the shift in rates?

MR. SAUNDERS: That seems to happen, especially at a time when sales are very brisk. He may be quite happy to do more business at a somewhat smaller profit.

COMMISSIONER MACKINTOSH: I would have thought it would work the other way around. If sales were brisk and the customer was willing to accept a higher charge he would pass it on, but if sales are hard to come by then he would use up what leeway he had.

MR. ROSS: I think in the industry dealers have come to accept changes in the wholesale interest rate which varies according to the short-term rates and the bank rates, and we are able to get by by announcing that change in a letter. But, when it comes down to changing an arrangement which we have with the dealer then we have a different set of circumstances on our hands. That is not as readily changed because each one may be a sales job to do all over again. The result is that the retail rate more or less follows the long-term trend rather than a quick change in the wholesale rate which is based on different factors entirely.

MR. TRUDEAU: There is this exception, Dr. Mackintosh. In paragraph 192 we explain that the wholesale finance charges are responsive to changing money market conditions. We end that paragraph

by saying that there is a similar responsiveness also in the industrial machinery and equipment financing. To that extent you will see some ups and downs at the retail level.

COMMISSIONER MACKINTOSH: Are you aware of any differences in customer response as between the different types of goods that require financing -- commercial vehicles as against appliances? Is there any difference in the degree of sensitivity or the observeable response that you are aware of?

MR. SAUNDERS: I think, Dr. Mackintosh, that commercial customers, whether they are purchasing commercial vehicles or equipment, would be the most sensitive because they use the acquired goods to earn income.

COMMISSIONER MACKINTOSH: They are cost conscious?

MR. SAUNDERS: Yes.

COMMISSIONER LEMAN: Yes, but presumably there is also a good demand in their fields which would give them a certain elasticity with respect to costs.

MR. SAUNDERS: I was merely saying that I think they are more concerned and more conscious, and that they will react one way or another. Of course, if their own demand is strong they will weigh that against the added costs which they will have to bear.

COMMISSIONER MACKINTOSH: Going back to an earlier question that was partly answered, do

changes in credit conditions -- that is, tight or easy money -- occasion differences in your agreements with dealers as to dealers' reserves, or is it just the amount of reserves that he chooses to concede?

MR. SAUNDERS: The agreements that we have with the dealers are basically to buy the paper from them at a certain rate, and with fluctuations in the money market the rate at which we will buy from them can vary. It seems to vary fairly fast on the down-side. If money becomes very plentiful we will buy from him at a lower net rate. Now, the dealer's reserve arises out of the difference between the price at which we buy a contract and the price at which he wrote it up. I would say there may be some correlation there. If his cost comes down he will probably write it at a lower figure, but it is not tied as directly to it.

COMMISSIONER MACKINTOSH: To what extent is that his choice?

MR. SAUNDERS: To quite a large extent. The dealer has a supply of our contracts;he has our rate charts. The rate charts are primarily to assist him in computing monthly payments, and he may have a fair number of rate charts there. He writes up contracts, and he works on the assumption that we are going to buy his paper from him,but he does not necessarily sell it to us. There are dealers who build up a fairly big block of paper and then offer it to three or four companies, and

he will sell it to that company that is going to buy it at the best price to him. There are other dealers who will carry some of the paper themselves, and will carry the rest of it through a finance company. There are some who will borrow from the bank against those contracts just as they do for other receivables. The bulk of it, of course, does go to the finance companies.

COMMISSIONER BROWN: Can I interpose one question here, Dr. Mackintosh?

COMMISSIONER MACKINTOSH: Yes.

COMMISSIONER BROWN: Does the dealer under competitive conditions and changing interest rate conditions vary the finance charge to his customer, or does he figure it out and give it to the customer in the terms of the retail price?

MR. SAUNDERS: The practice has been more to do it in the retail price. There are many variables. In the case of automobiles there is, of course, the price of the automobile itself, and then there are prices which include accessories and extras on the car. There is the price that the dealer pays for the trade-in, and that applies in almost every case. Then there is the financing. I think most dealers try to keep the price of their main product as low and as competitive as they can.

THE CHAIRMAN: We will adjourn for 10 minutes.

--- A short recess.

COMMISSIONER MACKINTOSH: Mr. Chairman, I

want to go back to one or two questions which I had overlooked. You told me that on the whole dealers would not make an inventory response to changes in wholesale prices, but I recall now that one or two of you who put in supplementary briefs did indicate that under severe conditions the finance company itself might cut wholesale lines and force, I take it, some liquidation of inventory. I take it that this is correct?

MR. SAUNDERS: Yes, that could be correct. I would think that under certain conditions if, in the assessment of the finance company, sales might decline they would certainly exert pressure on the dealer to keep his inventory in line with expected sales rather than with what he thinks his sales will be, because normally the dealer's assessment might be a little more optimistic than the finance company's assessment in the outlook for the future. An inventory that sits for a long period of time represents a cost to the dealer, and it represents an inconvenience to the finance company because the money is not turning over, and it may very well be that a dealer in such a position will find that after a while he will have to sell those units off and take a loss. We are reluctant to ever be in a position where we have to see our dealers take too many losses. In such a case we would caution him against building up too big an inventory in a period when we expect conditions to deteriorate somewhat, especially if we think they are going

to deteriorate seriously.

COMMISSIONER MACKINTOSH: In that case you are taking the tight money situation as a kind of a signal or forecast?

MR. SAUNDERS: We do, sir, and we take it in various ways. Under tight money I think the next step may very well be declining employment which, in turn, means our retail customers may have difficulties in keeping up with their payments. It may mean a decline in the purchasing power of the population as a whole, and your over-all sales might decline with it, whereas if it is brought about by other factors we think the result of it will be a general curtailment of business activity.

COMMISSIONER MACKINTOSH: In a situation in which money is tight to a greater or lesser degree, and your companies find it hard to scrape up the necessary credit for all their lines of business, do you select among them and decide that a greater share of the funds should be put into the more remunerative lines, and that you will restrict the less remunerative lines more?

MR. SAUNDERS: I do not think that is the case. That would be the sensible thing to do under certain conditions, but we have arrangements built up over a period of time with dealers, for instance, and we feel a responsibility towards servicing those accounts that are long-term accounts. They may not necessarily be the most profitable

ones, but they may be the ones where we feel we have the greatest responsibility in servicing. To this extent the logical thing would be, if money is really tight, to take all of our money out of wholesale and start putting it all into retail, but, of course, this is neither practical nor do we feel that is the way to do it.

COMMISSIONER MACKINTOSH: Well, you have built up such an impression of sensible logic in my mind that that is what I assume you would do.

MR. SAUNDERS: I think we have a lot of dealers who depend on us for a certain type of service, and our ability to supply them with money is what they rely on. That is the most important thing that they expect from us and deal with us for and even though it may not be the most profitable part of our business that would be the part we would service first.

COMMISSIONER MACKINTOSH: I have asked you a number of questions about your own and your customers' responses to tight money and you have given some indication that it some restraint, often rather belatedly. What about easy money? Do you put forward any special effort if the industry is at a rather low point and money is cheap? Do you have special sales efforts that you put on?

MR. SAUNDERS: I would say definitely we do. Naturally, when money is easier we have access to more of it at better rates, and that is the time when we try to increase our business.

COMMISSIONER MACKINTOSH: And this is to a degree timed nearly as you can with the turning points in the business cycle?

MR. SAUNDERS: It seems to be. I would not say it is necessarily by choice but it works that way. We are affected by the cycle the same way as all other businesses are.

COMMISSIONER MACKINTOSH: Your sales effort would be greater when money was fairly cheap than in a period when it is tight. Is that a

reasonable statement?

MR. ROSS: I would say that our sales effort is always supposed to be at a very high level, but when we get into a period of tight money I think we tighten up qualitywise, and I think there may be some transactions which you would take during a period of easy money that you would not take during a period of tight money. So, when money is easy our sales effort is supposed to be the same, but perhaps there is a little more effort put behind it. We would probably take transactions which we would not take under tight money circumstances.

MR. TRUDEAU: We might work harder to qualify a transaction in a period when money is readily available. We might try to be more ingenius. We might send a higher-level executive out to look over the property or talk to the people or do many more things to try to qualify. I do not think we are necessarily reducing our standards but we definitely work harder to make a deal.

COMMISSIONER MACKINTOSH: Just one more question. We had some information from, I think, the Laurentide Company as to their communication between head office and branches. How generally are credit standards that you want to put into operation at any time worked through your system, communicated to your branches, and do they respond promptly or is it rather a slow process to get your branches to realize that you are taking a curve and going in a slightly different direction?

MR. SAUNDERS: It has been our experience that our branches respond quite rapidly. The communication may take any one of a number of forms. It could be by form letter, telegram or telephone. To some extent it would depend on the nature of the problem. It could also take place -- and this is a constant process -- through the visits which take place between personnel of the head office and branches, between our district operational managers, regional managers and supervising personnel who are charged with translating the head office policy into the branches. They should then explain the reasons for the policy and also the reaction which is expected. That form of communication would be verbal and it would be quite effective, and it is going on all the time.

THE CHAIRMAN: Any further questions?

COMMISSIONER GIBSON: I should like to ask a few questions about your views on the monetary policy. These questions have all been touched on a little but never focused, and I should like to start by referring to a statement you make in paragraph 204 on page 100 in which you say:

> " Having regard for the economic situation in 1959, it can be said that the wrong policies were transmitted through the wrong channels in the wrong manner."

Now, I recognize that nobody likes having lines cut and you people certainly had your lines cut back, but would you care to elaborate a little

further on this: "... the wrong policies, wrong channels, wrong manner"? Would you like to turn it around and say what would be the right way to do it?

MR. WILLMOTT: As to the wrong policy we felt that at that time, due to the data which we had developed, the trend was already turning downward in the volume of business purchased by the sales finance companies, and therefore it was not necessary to adopt the attitude that was taken at the time.

COMMISSIONER GIBSON: You argue that the monetary policy became active too late?

MR. WILLMOTT: That would be correct.

COMMISSIONER GIBSON: You do imply here in effect that this was the policy of the central bank. Is this so?

MR. WILLMOTT: That was our understanding, yes.

COMMISSIONER GIBSON: The banks put this into effect, the chartered banks, is that not right?

MR. WILLMOTT: We understood that it was as the result of a directive from the Bank of Canada or after discussion with the Bank of Canada that the chartered banks put this into effect at a time when the chartered banks were becoming more and more competitive with us in our own field.

COMMISSIONER GIBSON: But leaving aside the question of whether the sharp tightening came too late to check the increase in consumer

credit, you are saying it was being checked anyhow and it would not make too much difference. What would have been the right channels? How could this have been communicated, assuming the policy was right?

MR. WILLMOTT: Well, we would like to see, and it is our recommendation, that the Federated Council should be called in by the monetary authorities to have the problem discussed with them so that we can fully understand what channels should be taken so we can co-operate. We are not suggesting what form the controls should take but we feel that the controls, if any, should be equally effective on all persons engaged in the business of consumer credit.

COMMISSIONER GIBSON: You say this in your first recommendation at the beginning:

> "That any needed control of consumer credit be achieved by monetary and fiscal policies, clearly communicated to, and equally effective on the operations of, all suppliers of consumer credit."

How can monetary policy be equally effective in the operations of all suppliers of anything? It does not work that way now. There is the quality to consider, and so on and so forth.

MR. WILLMOTT: I do not think we are prepared to say what type of controls there should be.

COMMISSIONER GIBSON: This implies a very selective type of control coming from the monetary authorities to all people who engage in the business of consumer credits. Is this correct?

MR. WILLMOTT: Yes, sir.

COMMISSIONER GIBSON: So it is not part of general monetary policy as interpreted now. It is something special, I take it.

MR. SAUNDERS: This happened during World War II and again during the Korean War, and in those instances there was a desire to restrict the consumer credit primarily because production was to be channelled into other areas, and it is difficult to say whether the restrictions on consumer credit as such are even necessary once the products to be financed are no longer made. But let us say it was considered to be necessary, and in that particular case there was an effective control of consumer credit on all various lenders in the field.

COMMISSIONER GIBSON: That is right, but the two occasions which you have mentioned, and I think they are the only two occasions on which there has been any direct control over the terms of consumer credit as such, involved in the first instance a condition of full emergency and in the second instance a condition of near emergency. This is not the sort of usual area of monetary policy. When you are in emergency conditions you do emergency things, and this is true not only of consumer credit but of very many other operations

in the economy. However, as a matter of regular practice how do you see monetary policy working in relation to sales finance companies? This is the problem that is puzzling me. You make this general statement that it should be achieved by monetary and fiscal policies, clearly communicated to and equally effective on the operations of all suppliers of consumer credit.

MR. SAUNDERS: I do not know if I am speaking for the whole Council but it is my opinion that controls towards the sales finance industry are not necessary unless there are some special circumstances of a type which we have just been discussing.

COMMISSIONER GIBSON: Those are very extreme circumstances.

MR. SAUNDERS: Yes. Without some extreme circumstances being in existence I do not really think that controls onthis particular industry are necessary. However, it is our feeling that if the monetary authorities wish to make certain changes, and in those changes they feel that the sales finance would be affected or should be co-operative or should be involved, then we would welcome the opportunity of having that particular aspect of it discussed with us. We may have some views on how to do it at that time if that situation exists. We may also have some reasons why it should or should not be done, and we will be able in the light of knowledge which is then handed to us to make some

recommendations as to how we will react.

COMMISSIONER GIBSON: Is that the general view?

MR. WILLMOTT: I think so, yes.

COMMISSIONER GIBSON: What in effect you seem to me to be saying is that "If there is a crisis, a very serious problem that affects our industry, we are willing to co-operate." That is fine but what about just the ordinary working of monetary and financial policies? How do you fit in there? If you do not like having the system as it works now, working through the banks to you, how should it work? How are you going to become sensitive to changes in credit policies? We want enlightenment on this.

MR. SAUNDERS: Supposing a situation were to arise whereby the Governor of the Bank of Canada felt that sales finance companies should restrict their operations for one reason or another. He would call in the officers of the Federated Council and explain what he has in mind and why, and then that could find its way down to the various member companies, and with explanation people will do more than through force.

COMMISSIONER GIBSON: Supposing you did not agree with him?

MR. SAUNDERS: It might be we would not agree with him but we might feel that we should go along with him anyway. We might also have some suggestions that would change the picture. Let me

give an illustration. Take a dealer who sells washing machines or refrigerators and he carries his papers with a sales finance company. The same type of equipment may be purchased from a department store which does not deal with a sales finance company. Well, we would want to see that our dealer is not put to an undue disadvantage in relationship to his competitor who had a different type of financing programme. That is the type of thing we mean by all users or all lenders of money.

COMMISSIONER GIBSON: I understand your feeling and it is a perfectly natural one, that you want to be fairly treated, but you do say that you do not like the way the present system works. What you have said is very largely in the context of a really difficult situation where the central bank has to face up to a problem. Normally we do not live in a crisis, and the monetary authority is merely adjusting itself moderately to certain changes it sees, and the thought is that this works through the financial system and has some gradual effect. How do you fit into that?

MR. SAUNDERS: Let us take our arrangement in relationship with our bankers. If our banker cuts off our line of credit because he thinks we are no longer credit-worthy or because he wants to restrict his funds so as to lend elsewhere, then we are not complaining about that action. We might not like it but we are not complaining about it. On the other hand, if he cuts us off because

the monetary authorities tell him he should, then we feel that that information would be more useful to us if it came to us directly.

COMMISSIONER GIBSON: So, all you are objecting to is the way in which this selective control comes to you. You feel if special selective action is to be taken it should be communicated to you?

MR. SAUNDERS: Yes.

MR. WILLMOTT: May I quote from the submission of the Bank of Canada to the Royal Commission? Section 14 on page 28 reads:

> "A much more far-reaching approach would be to aim at exercising, through central bank efforts or government controls, a detailed selective influence over the lending policies of a wide range of institutions, in respect for example of consumer credit contracts, mortgage contracts, offerings of new issues in the capital market and stock market credit."

In other words, the Governor of the Bank of Canada, I believe was thinking of exactly what we were talking about in this instance.

COMMISSIONER GIBSON: He says that is a much more comprehensive kind of approach.

MR. WILLMOTT: That is correct.

COMMISSIONER GIBSON: In other words, your position is that as long as the central bank or the government does not say that your industry ought to be treated in some special way, you are willing to let the chips fall where they may?

MR. SAUNDERS: I think that is inherent in the free enterprise system. We do not feel, especially under the present relationship which exists between our bankers and ourselves where we not only have a customer relationship but also a competitor relationship, it is reasonable to have controls on our industry imposed through people who are in a way competitors.

COMMISSIONER GIBSON: One of the difficulties about this involves the question of the definition of control, for you have lines of credit with the banks and the banks are your competitors and they can change the lines of credit if they want on their own volition and leave the central bank out of it. You say that this happened this year.

MR. WILLMOTT: Yes. We would be interested, if that had to happen, to see a form of control which would restrict the consumer lending of the chartered banks as well as our own.

MR. SAUNDERS: We feel if it is government policy that there should be control then that should be communicated to us through the government. If it is the policy of the bank that rather than lend to one of the finance companies it wants to lend to somebody else, that is a choice it can make but if the bank tells us, "We are doing this because we have been told to do so by the government" then that is the point where we feel we should be involved at the government level.

COMMISSIONER GIBSON: Do you feel that this kind of consultation at the government level is likely to be effective? Let me elaborate a little. This is what is called moral suasion, and one of the difficulties about moral suasion is that if a group goes along with a certain proposal, maybe some of the people in the group are less meticulous about it than others and the fellows who go along are penalized and the other fellows are not. I should like to hear what you think about this idea of consulting with the government and how far you can hope to reach sensible and workable arrangements.

MR. WILLMOTT: It is a little difficult to say because we have never had it put to us, Mr. Gibson, but we would be very willing to try it.

THE CHAIRMAN: Persuasion was never moral.

MR. WILLMOTT: That is right.

COMMISSIONER BROWN: It was tried once, was it not?

MR. TRUDEAU: Mr. Gibson, we mention here in this particular paragraph you quoted from, that we feel fiscal policy should be clearly communicated to and equally effective on the operations of all the suppliers of consumer credit, keeping in mind that, on the figures in Chart No. 5.1, on page 126, that the sales finance companies are only carrying less than 17 per cent of the consumer credit outstanding in Canada. Our feeling is that if there is good reason for any kind of regulation or control of sales finance companies it certainly must be because of monetary control thoughts as to what should be done regarding consumer credit. If we are going to deal with consumer credit , it does not seem to us that dealing with less than 17 per cent of it is very effective control of any kind. I think all phases of consumer credit should be dealt with.

COMMISSIONER GIBSON: Your statement is based on the premise that the central bank has been the author of these cutbacks.

MR. SAUNDERS: That is certainly our impression.

COMMISSIONER GIBSON: It is certainly not the case this year.

MR. SAUNDERS: Not at the present time, but we have been told, under various conditions, that an agreement exists between the Bank of Canada and the chartered banks, and that various reductions in our lines of credit in 1959, for instance, resulted from disagreement. We are affected by something which

we do not even know what it is, why it is done or how we could help cure the situation which maybe requires curing. This is the area where we feel that maybe we could be of some help, and it certainly would be helpful to us.

THE CHAIRMAN: If the central bank, using its ordinary techniques, decide that money should be tightened, and by affecting the reserves of chartered banks it had the ultimate effect of affecting your line of credit with the chartered banks, would you suggest that that was a proper way of curtailing your activities a little bit? If the ordinary procedures of monetary policy were carried out in a general way, affecting everybody who might be concerned, someone might be a little more affected than others, depending on their position . If it was done in that way and no attempt was made to select any group who were to be told they must do this and they must not do that -- if it were a general policy and it affected your business as a result of the contraction of bank credit, would you have any objection to that?

MR. SAUNDERS: No, I would not, but what I would have a great deal of difficulty in understanding would be why such a policy would have the results of all the banks curtailing all the finance companies at the same time. In other words, the situation that you have described would indicate to me some banks will take certain action and other banks other action.

THE CHAIRMAN: I do not know. The net position

of it is that the credit of the banks will be contracted generally.

MR. SAUNDERS: Yes, right.

THE CHAIRMAN: And the banks will then pursue their own policies, to adjust themselves to that situation. You may be affected or you may not be affected.

MR. SAUNDERS: That, I think, would be a different situation from what has happened in the past, as far as we are concerned.

THE CHAIRMAN: I am just asking about that.

MR. WILLMOTT: Provided their own consumer lending was curtailed.

MR. SAUNDERS: I do not think that matters.

THE CHAIRMAN: Is this one of your complaints? Are you suggesting that the banks took advantage of the situation and increased their consumer loans at your expense, by cutting down yours? Is that suggested?

MR. SAUNDERS: We think the statistics bear out some activity in that direction; and that is a perfectly good, normal business decision on the part of the banks. Why should they lend to us, if they could lend elsewhere?

COMMISSIONER MACKINTOSH: You mean to say you notice some turn up?

MR. SAUNDERS: If this is done in the name of national policy, we feel we would not have agreed with this as national policy.

COMMISSIONER BROWN: I am a little confused on a lot of this. Was not it a fact that moral suasion

was attempted once and it did not work? You mentioned this, I think, in your opening statement.

MR. WILLMOTT: Yes, in 1959 -- 1956-57. You mean, the meeting we had with the governor of the Bank of Canada. That was before the council was formed, Mr. Brown, and it was not particularly effective.

COMMISSIONER BROWN: At the moment you represent 70 per cent in volume of the industry, and the other 30 per cent is represented by a lot of small companies and one large company?

MR. WILLMOTT: That is correct.

COMMISSIONER BROWN: Have you any good reason for assuming that moral suasion, under present conditions, would be more effective than before?

MR. WILLMOTT: I think, if it was sold to us properly and we understood the conditions which were required, our companies would be willing to do our bit to maintain whatever situation the governor of the Bank of Canada or the government required.

THE CHAIRMAN: Can the Bank of Canada wait until you are satisfied their policy is the right policy?

MR. WILLMOTT: Well, we can be satisfied quite quickly.

COMMISSIONER BROWN: Frequently the monetary policies are trying to move by nudging rather than something drastic. Is the use of moral suasion to get nudges into the economy a correct piece of such a technique?

MR. ROSS: We think we do not complain and

we cannot complain in regard to any action taken by the central bank to make money tight; and if the chartered banks cut back on our credit lines, that is o.k. If they continue in the consumer credit field, we think it, perhaps, a bit unfair, but we still cannot complain about that because it is still a competitive thing we have to contend with. But if it is going to be moral suasion, then we would like to know about it. I think that what we really mean is that if you ask us, we will co-operate, but we will also want to make sure that the other 83 per cent of the people are also brought into this in some way which we might be able to help with. So, if it is moral suasion we would like to hear about it.

COMMISSIONER LEMAN: Would you be prepared to take one further jump? Do you think the moral suasion approach is any good, to go to certain people who are providing a service or goods, and say, "Will you gentlemen as a group please reduce the amount of business you are doing voluntarily?"? Does that make much sense?

MR. SAUNDERS: I would say that if the statement stops there, it would make no sense at all. But if the statement went on to say, "The reason why we feel you should do this is so and so and such and such, and, alternatively, if you are not going to do it there may be certain other things we will do which may or may not be desirable," then I think it would have some effect.

COMMISSIONER GIBSON: You are saying, in effect,

it has to be a pretty serious situation before you can see this kind of method should be used. It is not going to work for a small change, but you have to have a real problem?

MR. SAUNDERS: We feel that if we lose 25 per cent of our bank lines, that is a fairly serious situation, so there was plenty of opportunity before that decision was made to give us some warning. Maybe there was not, but that was our feeling.

COMMISSIONER MACKINTOSH: May I interject a further question? Assume that in some future situation there is a need for a holding back of credit, and assume, in the second place, that the action is evenly applied both to the finance companies and to the chartered banks -- if we remove that complaint, and I assume it could be extended also to the small loan companies -- would that be effective, or would you have to go right through the whole list of department stores and credit retailers and all the varieties of consumer credit which exist?

MR. WILLMOTT: Dr. Mackintosh, I think that to be completely effective it would have to go right through all the suppliers of credit.

COMMISSIONER MACKINTOSH: If you still carry on or retain your desire for consultation, then it is the second boom after this one you are going to catch by this process. Perhaps you might plan it so that it would work right. These things happen too quickly for that process to work. I think perhaps the consultation you want is a fairly periodic

consultation, which would give an understanding of your industry and give the industry some understanding, perhaps, of some of the problems of monetary policy and how it affects this, so that if there was need for sudden action it would be taken in an atmosphere of some understanding rather than as a complete bolt from the blue.

COMMISSIONER LEMAN: Could not one argue that if in the mind of the monetary authority the reasons for trying to get you to cut down is to get somewhat less cars sold or made, then why not go direct to the car manufacturer and ask them to cut down on their sales?

MR. SAUNDERS: We would prefer that.

MR. WILLMOTT: There is a certain amount of discrimination against the credit buyer if it is limited strictly to credit, because if the manufacturer proceeds to manufacture cars the cash buyer can still buy cars, so that what you say about limiting the manufacturer definitely has some merit.

COMMISSIONER LEMAN: I am not suggesting how it should be done, but I am trying to find out if you really believe that persuasion is a good approach. In other words, I am asking you if you think persuasion would work if the monetary authority went to the manufacturers of goods and asked them to cut down on their sales.

MR. WILLMOTT: I do not think we can speak for the manufacturer.

COMMISSIONER BROWN: Have you any suggestions

as to any specific forms of credit control that might be applied?

MR. WILLMOTT: No, sir.

MR. SAUNDERS: I think we would develop suggestions if we knew the problems. In other words, we are not aware at this moment of any problem necessitating the need for control.

MR. WILLMOTT: I think the form of control could be decided. I do not think any crisis has arisen fast enough that there could not be some form of consultation that would set the type of control.

COMMISSIONER GIBSON: The difficulty about a boom, --and the tight money that often goes with it, is that the initial stages are very nice and everybody likes it. All the credit participants in this situation like it and they are out getting business and the whole thing is fine. But this is a point, if the boom is going to be checked to lessen the later decline, or put some restraint on it happening -- you get this later when it has gone so far that to put the brakes on the problem is much more difficult.

MR. WILLMOTT: We are only one segment of the very large credit industry, and it would be difficult for us to sit and restrain ourselves while other people were going ahead. We think it should be done in concert with the authorities.

COMMISSIONER GIBSON: I understand your point of view, but you talk about clear communications

and so on. I speak subject to correction, but it seems to me that clear communications are only likely when you have a pretty critical situation. You do not usually know if a rising trend in business is going to go on into a boom. The only time clear communication is likely is when you have a real problem. How does the monetary authority succeed in giving you these little nudges that sort of tighten things up for you a little bit? This is what they do to the banking system. It partly works with you too, but you have developed other methods of raising your funds. Have you any thoughts on this problem?

MR. WILLMOTT: Could we develop some thoughts for you?

COMMISSIONER GIBSON: I would be very pleased if you did.

MR. WILLMOTT: I think it might be a matter where we could perhaps issue a supplementary brief for you, rather than discussing it at the present time, if that would be satisfactory.

COMMISSIONER MACKINTOSH: You did say, I think in another part of your brief, that you think regulation of down payments and length of loans is not and would not be effective.

MR. WILLMOTT: There are so many cash loans these days, Dr. Mackintosh, that it would not be entirely effective to the sales finance companies.

COMMISSIONER MACKINTOSH: I think my recollection is it has proved pretty hard to define a down payment.

COMMISSIONER LEMAN: Could we come back to one thing we touched on a little this morning, but in another context? I warned you I was not then talking about the term "disclosure" but we thought we had better talk about it a little bit. Not, of course, because we are fanatics about it ourselves, but we have heard a great deal about it from other groups that have appeared before the Commission. There is a sentence on page 38, which is part of paragraph 87. This is under "(c)" on page 38, and you say:

> "A percentage rate of comparison, however, will not be helpful, since chartered banks will express their personal loan rate in one manner (which differs among banks), credit unions in still another, while a special set of rules for interest rate computation would have to be devised for the sales finance field."

I think that where the word "disclosure" becomes important is not in the relations between you and the dealers, it is not in the relations between you and these industrial borrowers, that sort of sophisticated credit user, but let us talk about the general public, the purchaser of goods, say.

We don't have to be concerned here with the dealer's reserve and all kinds of wrapped up service thrown in as between you and the delaer, but as between the dealer and the purchaser of the automobile why would a whole set of special rules have to be devised for that kind of a transaction?

MR. ROSS: Well, this interest calculation per annum on a customer's contract is a very difficult thing. I think that we might concede that if all customers' contracts were made out on a certain day of the month and that the first payment was exactly one month hence and all other payments were paid exactly one month after that for a period of, say, twelve months, that a set of tables could be provided which would give the approximate per cent per annum, but the facts of life are that when durable goods are purchased it is very seldom that the first instalment will fall one month from the day of the contract; hence somebody will say, "My payday is on a certain date and therefore I want to make my first payment two months from today or a month and a half from today or fifteen days from today," which throws the whole calculation out.

Then, of course, you might have a school teacher who wants to skip a couple of months or a fisherman who wants to skip two or three months in the winter, and so on. Well, these things all change the rate of interest per annum and it would be impossible to try to supply enough tables at the retail level which would be

effective in using this instalment sales finance tool as a merchandising medium.

There are mechanical difficulties and they are great, but I would like to say again as I said this morning that the sales finance companies have always been in favour of full disclosure; that we believe that the most meaningful terms to the buying public is the charge or the difference between the cash price and the time price as it is quoted in dollars and cents.

If you will refer to our brief you will see that there are many contracts in there submitted by different sales finance companies and they all outline the transaction right from the selling price, less the down-payment and plus insurance, if any, and then the finance charges -- as they are called -- are quoted in dollars and cents which gives the total deferred payments which are repayable over a period of months and the instalments are stated, so we have always followed the philosophy that there should be full disclosure and that the purchaser must understand the transaction, otherwise we would be laying ourselves open to a lot of adverse public relations and comments.

We also feel that to state the interest charges in terms of a per cent per annum would create confusion in the public mind. We also feel that it would destroy flexibility at the retail level and that it would cause complications between the dealer, the salesman and his prospect.

In so far as confusion is concerned, I wonder if people don't come back to dollars and cents finally anyway. We have the credit unions quoting a per cent per month and we have the banks with a per cent per annum plus a service charge, and we have revolving credit with a charge per month based on the balance at the first or at the end of the month, and we have all different kinds of credit which have evolved in this credit field, all of which take on a different method of quoting the charges. We still feel that a person earns dollars and cents and spends dollars and cents, and that is the best way to disclose it.

For instance, to indicate the confusion that might exist, if you walk into a retail establishment and you buy, say, an article for $1,500 and the down payment is $500, leaving a balance of $1,000, and the public should ask, "What rate of interest do you charge?" and he is then advised that it is 10 per cent. Well, immediately I think the public are going to think in terms of $100; 10 per cent of $1,000 is $100, but if they ask, "What is the finance charge?" they will say that it is 5.5 and the public will say that that is 5.5 per cent of a thousand, and that is quite all right, but in both cases they are wrong because in the first case it is more like 18 per cent per annum and in the second case the 5.5 is 10 per cent per annum, but I think he understands the $55 charge in relation to the $1,000 perhaps better

than he does anything else.

Now, we have here -- and which has just come to hand -- the Final Report to the Parliament in Britain by the President of the Board of Trade by command of Her Majesty, and which is dated July, 1962, and it is known as the Molony report, and when we were writing up our brief we didn't have this, but I would like to read you one paragraph here, if I may. It is headed, "Ignorance as to Interest Rate" and it reads as follows:

> "Another suggestion springing from the consumer's supposed ignorance of the amount of the additional charge levied for credit was that the difference between the hire-purchase and the cash price should be declared to the hirer as a percentage rate of annual interest on the average sum outstanding over the repayment period. (The suggestion is framed in this way to counter the practice of stating the interest rate voluntarily but misleadingly as a percentage on the total hire-purchase price, or on the whole of the initial advance and/or as a monthly rate). This would help only those hirers who study their agreements, and we credit persons who take the trouble to do this with the capacity to observe and appreciate the difference between the hire-purchase

and the cash price. Such persons would not be assisted by a further statement of the interest rate. We observe however that the consumer does not appear to be incapable of distinguishing between different scales of hire-purchase charges, since there are some dealers who inflate the stated cash price so as to make the hire-purchase terms offered by them appear to be attractive. We condemn this practice but we do not know how to stop it; any more than we know how to stop verbal misrepresentations of the interest rate. To regard the hire-purchase charges as merely an interest rate on a loan is in any event fallacious, as they must also cover the costs of setting-up the agreement, of collecting and recording payments and of bad debts."

Our suggestion is that the way we have done it in this country over a long period of years is a satisfactory one and it is an honest disclosure and a disclosure which the public can understand, and that is apparently borne out by this report.

Now, supposing we had supplied a lot of tables which would show the approximate interest rate at the retail level; the very fact that this plan of merchandising has been so successful is in

itself simplicity. The retail dealer, of which there are thousands, and retail salesmen of which there are tens of thousands, merely have a chart in their hands which says that if the balance is between $300 and $310 and the instalments are payable over 12 months or 24 months, there is the charge and there is the monthly instalment. Now, if we throw applications into that whereby he must also quote this in terms of the percentage per annum, I feel that the use of this tool as a sales medium at the retail level will be very greatly hurt. I think it is often forgotten, but it is the retail dealer and the retail salesman who will have to find out in many cases what the return per annum is, whereas he can find out very quickly what the dollar amount is supposed to be. I don't think that anywhere in our brief have we attempted to put a figure on the value of goods sold under these arrangements, but if we just take the sales finance companies alone, in 1961, according to the Dominion Bureau of Statistics -- and if we take the sales statistics relating to the retail dealers and the department store statistics -- the latter two being somewhat incomplete -- but if we deduct from this volume of these purchases the approximate finance charges which are included therein, and we add back to it the approximate amount or our estimate of the down-payments involved, we arrive at the figure that the total value of retail sales of consumer goods amounts to $1,365,000,000,

and that involves about 1,765,000 transactions.

My point here is that this mass medium is used extensively and it has grown throughout the years and many people prefer to use their credit at the retailer's; that is, their purchase credit without the necessity of going to a financial institution to arrange a loan, and they like to take possession of the merchandise where they make the purchase. I suggest to anyone who suggests we change this, that it might cause confusion in the public mind in certain instances, and inconvenience at the dealer-salesman level. I think we should think very, very carefully of changing anything that is working so well.

In all of the literature that is published by the Federated Council of Sales Finance Companies, one of the statements which is always made in it is when you compare the price of merchandise be sure you compare the credit price to which service charges have been added, so we always strive to have the public shop for credit in any literature which we have published.

COMMISSIONER BROWN: I would like to ask one question on this, and it is possibly an ancillary question, but what is your situation where the ultimate buyer wants to pay off his note ahead of time. What does he do; does he pay the full price that has been set out, including all finance charges, or is this described in there somewhere?

MR. ROSS: The sales finance companies have been very generous with the rebates that they give to people who wish to pre-pay their accounts and the reason we are generous is, of course, a selfish one, because we want that purchaser back on our books again. So, most companies give what we call a pro rata rebate, and there will be a small purchase and handling charge. In the area we are talking about of refrigerators, and so on; it may be $2, $3, $4 or $5, but in the automobile field it might go as high as $10, but the rebates are as generous as we possibly can make them.

COMMISSIONER BROWN: Is this set out anywhere in the agreement?

MR. ROSS: No it is not; it is by long standing practice that that has come about.

COMMISSIONER BROWN: Do you think there might be any point in setting it out in the agreement so that the purchaser knows what his position is?

MR. ROSS: Well, we have thought of that many times, but it doesn't seem to be good business to ask him to get a transaction on your books and then immediately provide all the facilities whereby it can be paid out.

MR. SAUNDERS: There are dangers in that, too, because we, of course, rebate on this principle, as Mr. Ross explained, but if you get a customer who is consistently late with his payments, he may be 18 days behind one month and 25 days the next time; anyway, his practice has been that

he has been behind. Now, he is subject to paying some kind of penalty for his late payment. You can't foresee this type of situation exactly how it will happen, so you don't want to get into an argument with him over the fact that he has paid out at nine months instead of twelve. He is entitled to that rebate less whatever penalties may be charged against him. Then again you never assume at the time a certain account comes on your books that he is ever going to be what we call delinquent; you can't ever assume for sure that anybody will not pay, so this is a factor also in computing these rebates.

MR. ROSS: I think on the average perhaps 15 to 20 per cent of the total charges taken in by sales finance companies are returned to the purchasers in any given year.

COMMISSIONER BROWN: There are that many that pay back in advance?

MR. ROSS: That is right. There are absolutely no restrictions on it.

THE CHAIRMAN: How much is that? I didn't get the quantity.

MR. ROSS: I say that is the total gross charges which any sales finance company will take in during the period of a year. At the same time, there is about 20 per cent, or 15 to 20 per cent of that amount, depending on the company, which is being rebated to people who have come in and said, "I want to pay my account out."

THE CHAIRMAN: If it is this high a

percentage, shouldn't this be part of the agreement?

MR. ROSS: Well, as a matter of practice it is well known by all of the retail industry that there is a rebate available and we have never thought seriously of putting it in the agreements.

THE CHAIRMAN: You are in the same position as in the case of a mortgage when dealing in real estate; the mortgage runs for five years and the mortgagor is not permitted to pay that off at any time except generally unless there is a bonus?

MR. ROSS: That is right, but we don't charge a bonus.

THE CHAIRMAN: I know, but there is nothing unusual about having an agreement of the kind that you have which makes no provision for repayment before the expiration of the term?

MR. ROSS: But again we try to ---

THE CHAIRMAN: I understand that you will.

MR. ROSS: We will, yes, and it is a one-way agreement.

THE CHAIRMAN: You are not bound to do so, but you will meet the demand of the customer in that respect. I am just pointing out that I don't think there is anything unusual ~~in~~ this practice of having an agreement such as yours.

MR. ROSS: Well, except that the public find it difficult to understand that if you have a 12-months' contract, in the first month there are twelve units of that contract outstanding, and a

lot of people expect when the contract has been paid down to six months, and it is a twelve months' contract, that they will get one-half of the charge back, but they don't because this is a pro rata agreement as to the time and the amount outstanding, and it is hard to explain. What we do is stick closely to the pro rata arrangements and say that if you are satisfied with the charge in the first place you are satisfied with this, because it is a difficult mathematical thing to understand and we like to keep our customers happy, but it is an open-ended contract and can be paid out at any time.

......p. 5497 follows.

I only say that when it really hurts is when you have a substantial transaction on your books and it is paid out by the I.D.B. In such a case we give a pro-rata rebate, but if we want to pay them out, why, there is a 6 per cent penalty.

COMMISSIONER BROWN: I was talking of the small consumer loans which, on occasion, are paid out because somebody has borrowed money elsewhere to consolidate a debt.

MR. ROSS: That is right. It often happens. If a purchaser comes to our counter and wants to pay an account, and he has a cheque from a competitor of ours in his hand with which to pay it out, then it makes no difference, he still gets the rebate. We hope to have him come back again. I might ask Mr. Flanagan if he has anything to add to what I have said.

MR. FLANAGAN: I think all of the areas on which information has been requested here have been covered. There are certain other areas, but I do not think the Commission is interested in them. One point is quite valid. When an industry such as ours is asked about disclosure it is suspect if it says: "We do not agree that the simple annual rate of interest will give the proper picture", because people will think we are trying to hide something. That is not the fact. I think it has been made clear here that we advocate disclosure, and we would like to stand on that.

We advocate disclosure, if there is to be

legislation, disclosure/on a basis that will be helpful to the consumer, and a type of disclosure that can be interpreted clearly by the consumer. It is possible to go into many, many other ramifications of this subject. There are the difficulties that such a law would impose on the small retailer, for example.

I can assure you, although I am not a mathematician, that I differ many times with my associates here as to what are simple annual rates of interest, and if we who are in the business cannot agree, I think it is readily understandable why vendors, whose primary job is to merchandise durable goods, find it even more difficult to understand. I do not think I would be too presumptuous if I said that Mr. Gibson, who is not only a banker but also an economist, might find it difficult to compute certain types of simple annual interest.

COMMISSIONER GIBSON: The older economists are not all mathematicians.

MR. TRUDEAU: I might add that some months ago I reviewed a new piece of literature that was distributed by Industrial Acceptance Corporation which involved new approaches to financing. There were certain finance charges quoted. I wanted to determine what the effective annual rate of interest was on those transactions, so I turned the matter over to two different income control departments which I happen to have in my organization, and I got back two different

answers.

MR. ROSS: I would like to add that at page 120 we have put forward a table of the type of gymnastics you have to go through, but I have been told by our research department that the thinking here is wrong because they have used a constant ratio method instead of the actuarial method. When it says 12.20 per cent here that should really be nearer to 12 per cent.

COMMISSIONER MACKINTOSH: This was not done on purpose?

MR. ROSS: No, it was not. I found that out just today.

MR. FLANAGAN: Some of the abuses that have occurred in this field, I think, have resulted from what you might term the fringe operator -- the type of person who might use devious means no matter what the law is. I am sure that legislation along these lines is not going to change the actions or the intent of the unscrupulous operator or the "fringe" operator, who is the person that is causing the trouble today.

He will continue to sell what he is selling in such a way that will not be clearly interpreted so far as the consumer is concerned. The hiding of the finance charge in the purchase price would be one thing that this type of individual might resort to.

I do not think, as some people do, that the majority of business people are devious in their approach to the consumer. I think it is definitely the fringe area of the business community that is causing the trouble, and it certainly seems inappropriate to

jeopardize our economic system, and/challenge the honesty and forthrightness of most merchants and most lenders, because that fractional segment seems to use devious approaches.

COMMISSIONER MACKINTOSH: Is not the thing that is hidden in this the dealer's reserve?

MR. ROSS: The charge which the public pays is shown on the contract in dollars and cents, in the same way as the $25 you pay for a pair of shoes is shown on your bill. If the dealer has got a profit hidden in the price of that pair of shoes, why, I do not think it affects the public.

COMMISSIONER MACKINTOSH: The public assumes that the profit is hidden in another part of the transaction?

MR. ROSS: The public sees very plainly the dollars and cents it is obliged to pay. How that is broken down is a long mathematical story. It would be the same if an industry was asked to break down its final cost into the cost of raw material, production costs, and so on.

COMMISSIONER LEMAN: I am curious to know how the dealer's reserve system was born. Was it an imaginative finance company who put the idea into the heads of the dealers first, or was it the dealers who were resourceful enough to ask for this? How did it begin?

MR. ROSS: It goes back so long -- it was before I was born. It was started in the United States, but whether it was started at the request of

the dealers or on the suggestion of a finance company, I do not know. However, it has been in vogue to a great or lesser degree for 40 years, or in that vicinity.

COMMISSIONER LEMAN: And you do not consider it an undesirable development?

MR. ROSS: No, I do not, because if the sales finance companies were obliged to open offices, conduct advertising, and do all of the things necessary to obtain the volume of business which they obtain now, their costs would be terrific. In other words, we would have to interview each individual purchaser as the banks do now, and as the loan companies do, but if the dealer in his place of business takes his time and uses his establishment to produce this piece of business, and if he guarantees that piece of business and it arrives on our desk in the morning in the mail -- perhaps there will be a pile of a hundred transactions -- and we have seen nobody, then, surely, somebody is entitled to something for producing that business. If the dealers' reserves were discontinued entirely, and if we were forced to find other means of obtaining this business, then I doubt very much if the charge made to the public would be any less, and it could well be more.

COMMISSIONER LEMAN: Do you think he exerts himself to sell cars more because there is a dealer's reserve than he would if he did not have the dealer's reserve and was still trying to sell cars, and many of his customers said they could not pay cash for the cars?

MR. ROSS: The dealer then has a service to sell. The dealer's first wish, of course, is to sell the automobile. That is the business he is in. His second wish is to perform more service such as supplying additional accessories or financing, or any one of several services which he might have for sale. He would like the purchaser to use those services. So, this credit is available providing the dealer feels that the prospective purchaser is a good risk. He will supply the credit in his own establishment. The fact that so many people over the years have preferred that would seem to indicate that the public is quite happy with it.

COMMISSIONER LEMAN: Has it ever resulted -- this is not my own opinion, mind you, but some people have said this at times -- in the dealers' discouraging cash sales and encouraging time sales?

MR. ROSS: Well, I think perhaps that is an over-statement. In my experience I have found that if the dealer sells an automobile then that is what he is after. If the purchaser wishes to buy a further service which he has for sale, and he is a good risk, the dealer would probably encourage him to use his house finance plan because there would be some slight profit in it. Dealers also like to maintain a connection with the purchaser by offering him financing right on his floor, because he knows that if that prospective purchaser goes outside to some other source of finance he may receive recommendations to go somewhere else entirely to make his purchase. That

has been known to happen. Therefore, the dealer often likes to close the whole transaction right in his own place of business. Many people like to do it that way.

COMMISSIONER LEMAN: It does result in a strange relationship, does it not, because if a man steps up to a dealer and says: "I would like to pay cash for this car", and there is no difference between the time sale price and the cash price, then this individual who has the cash to pay for the car, and who alternatively might be earning 5 per cent on his cash, cannot get the advantage between that and the 18 per cent that the time purchaser pays, in effect.

MR. SAUNDERS: I do not understand that question.

MR. ROSS: I cannot quite follow it, but if you mean that the purchaser can get the financing cheaper somewhere else -- is that what you mean?

COMMISSIONER LEMAN: Yes.

MR. ROSS: If he can, then he is perfectly entitled to go and get it. The dealer does not have any strings on him. I do not think when a sale is made that the trading end of it is made on the basis of whether it is going to be a cash sale or a time sale. I think the deal is made and then the dealer would like to see the purchaser use his house finance plan, just as he would like to see the purchaser buy a radio that he has to sell for the car. If the prospective purchaser would like to go out to some other source then he is quite able to do so,

but a lot of them like to tie their financing in with the article being purchased, and to get their purchase credit right on the floor and wrap the whole transaction up in that manner.

That has been in effect for 40 years in this country, and it has continued to grow. Sometimes I wonder whether the man who is actually using that service knows he is being spoken for.

COMMISSIONER BROWN: My question about prepayment leads me to ask now what happens to the dealer's reserve in the case of prepayment. Does he get the whole of it, or is he cut down to a portion of it?

MR. ROSS: When a prepayment is made the usual practice is that the whole charge that the purchaser made in the first place is rebated on a pro-rata basis; whether it be the dealer's reserve or the finance company's charge to the dealer, the total that the purchaser pays is rebated.

COMMISSIONER BROWN: So the dealer shares in this rebate?

MR. ROSS: Definitely.

COMMISSIONER BROWN: His share of the dealer's reserve is cut down?

MR. ROSS: Yes.

COMMISSIONER GIBSON: I have one question about this business of disclosure of finance charges or interest rates; about this way of doing it. I understand there are many practical problems. People do things in a certain way, and the way in which they do them has grown up in a certain fashion, and so on

The philosophical ground that you gave I do not find convincing at all. You suggested that this is really not a rate of interest. It has much to do with risk and service charges, and so on. But, most interest rates have some element of risk in them, and most of them have a little service charge in them, so it is just a question of degree. With respect to a two year contract for $2,000 you might properly call it an interest rate, but when you get down to something extending over ten months then the minimum charge gets so big as to make the whole thing look silly. Is there really any philosophical distinction between a charge made when financing a used car and a charge made by a dealer in his floor plan?

MR. ROSS: I think the whole thing, as you have said, is a matter of degree. It is like the illustration I used this morning about purchasing the house as against calling in a plumber to put a washer on a tap. The further you depart from the riskless one payment substantial amount of money type of thing down to the instalment plan where the smaller the balance and the more instalments there are, then the more it departs from being interest and becomes a service charge.

COMMISSIONER GIBSON: Why can you not have an interest rate plus a service charge?

MR. ROSS: You could do that very easily. We could say that the interest at such and such a rate is so much, and the service charge is so much, but we wonder why we should confuse the public when it

is thinking in terms of dollars and cents.

MR. SAUNDERS: This would create confusion under the present system. Let us say that we all adopted the position where we would charge 6 per cent simple interest, and then there is a service charge or, perhaps, make it a flat amount. If we made a flat service charge then on a very small balance the purchaser would be paying, in effect, a higher rate than he is now.

MR. ROSS: When one takes possession of money, say, $100 or $200, then one knows how much is there because it can be counted. However, when a person takes possession of an article which is sold from a retail establishment they have something that can be sold for $100 or $110, or any amount. If we go to some form of disclosure which is inconvenient, or which confuses the public, or which in any way causes questions as between the retailer and his prospective customer, then you are going to find that the prices of the article will vary with different establishments. You will find that there will be a tendency to go underground, as we say, whereas now everything is fully exposed, and we contend the present system is working satisfactorily.

THE CHAIRMAN: Suppose you could disclose an interest rate in an intelligible and practical way. Then, I suppose, you are going to have a service charge in addition to that, and you could fix the service charge at almost any amount you decide upon. The balance of the total charges would then be interest

at rates varying from 5 per cent to 10 per cent. You could then work it out in any way you like, and who is to say what is interest and what is the service charge.

MR. SAUNDERS: That is exactly the problem.

THE CHAIRMAN: You could mislead the public by indicating your interest rate was a low one by simply saying that your service charge was the major item.

COMMISSIONER MACKINTOSH: On the other hand, on the theory of logic and good sense in the industry you do not start with this finance charge and then think of ways of breaking it up. I assume you actually build this charge up. Certain segments of it are to meet certain costs. The whole thing has some logical structure. I am not at all convinced that the simple interest representation is a proper one, but I would think finance companies could give a reasonable and logical explanation that on a certain size of loan that runs for fifteen months the finance charge is built up in a certain way. It could be explained that it would be different for differing maturities and different amounts, but that such and such is the structure.

I am sure you do not just say: "On this type of transaction $90 is the most we can hope to get as a finance charge. Let us now think up reasons as to how we can justify $90". You build it up from information as to the estimated costs of doing business. One cost is the cost of the money you put up. Then there

is the cost of service, and how much you have to give the dealer to retain his interest, and so on. Is not that sensible?

MR. SAUNDERS: It sounds very sensible, Dr. Mackintosh, but in actual practice I have never been involved in establishing a rate of that type, and I do not know whether these other gentlemen have. Let us start with the rate that is in existence. Perhaps it has been in existence for a long time. You might raise it or lower it in relationship to your current costs, but you do know what the current rate is, and you also know what your current return is on your investment. You may then be talking about an average of thousands, or tens of thousands, or hundreds of thousands of accounts, all making up a certain mix, and if you see your own costs rising in a relationship with the established rate then you may do something about trying to raise the established rate.

If you see your own costs declining and perhaps your volume of business declining because the rate appears to be high, you might be able to reduce it. But here we are talking averages of very large numbers and I do not think we could easily say that a finance charge of $73 on a loan balance of $940 over 14 months is reasonable or unreasonable and start from the bottom and build it up. Our rate structure is created on the over-all business, and the raising and lowering of rates is on the same basis.

COMMISSIONER MACKINTOSH: I am not sure that you have not destroyed my growing confidence in your method of doing business.

MR. ROSS: We will have a rate, Dr. Mackintosh, very similar to the bank. Let us say we arrive at a certain percentage, which might be $6 per $100 per year. If we get a $500 contract on that we naturally make much less than we would on a $2,000 contract. If the bank rate is 6 per cent they will give you the same rate on a $5,000 loan as on a $15,000 loan but obviously the $15,000 loan is more profitable.

COMMISSIONER GIBSON: There is one more question I should like to ask. I overlooked asking it when I was asking about your views as to monetary policy. I am thinking of companies which are controlled by foreign companies or which have major affiliations abroad. I do not know if you wish to talk about this now or include

it in the memorandum you are thinking of filing, Mr. Willmott, but what about this? When money is tight -- and you refer to this here and there in your brief -- companies which have parent companies abroad obviously find it easier to carry on without much relation to the tightness. Is there anything that can or should be done about it?

MR. WILLMOTT: We also mention in the brief that these companies had brought in a very small amount of money during that tight money period.

COMMISSIONER GIBSON: Yes.

MR. WILLMOTT: But to be entirely effective there should be some form of control established on the bringing in of money from the parent companies.

COMMISSIONER GIBSON: I ask this because you are talking about the control of capital movements, which is a very major subject. I am not advocating anything but I should like to know if you have any opinion on this.

MR. FLANAGAN: Some people claim that moral suasion was the reason money was not brought across during the period of tight money.

THE CHAIRMAN: Any further questions?

COMMISSIONER LEMAN: I have one question. It has to do with detail but I should like to get the opinion of the Council on this point. At the end of paragraph 170 in your brief you indicate that the commission rate presently paid on short-term

notes placed through investment dealers is reported by some of the companies at 2½ cents per $100 per month. It strikes me that that makes a pretty steep difference between raising 30-day money as against, say, 180-day money, the fact that it is calculated by month. That is a straight rate per month. What is the philosophy or justification for the per month basis of granting commissions or earning commissions?

MR. WILLMOTT: It is based on the fact that there is a great deal of difference in the length of the term of the individual note. Notes are not necessarily just for 30 even days. They may be for 36 days, and the commission is paid on the basis of 2½ cents for the actual number of days; in other words, $25 per $100,000 per month is an easy way of calculating it.

COMMISSIONER LEMAN: For a whole month?

MR. WILLMOTT: For a whole month, yes, 30 days.

COMMISSIONER LEMAN: But suppose it was 36 days?

MR. WILLMOTT: Then it would be 36 thirtieths of the amount.

COMMISSIONER LEMAN: So it is not for a whole month or part thereof?

MR. WILLMOTT: It depends exactly on the number of days that the note is outstanding.

COMMISSIONER LEMAN: But from the point of the investment dealer is there more relative

difficulty in raising, say, 180-day money than, say, 60-day money?

MR. WILLMOTT: It varies with the times, actually. It depends on the individual lender whether he wants to put it out for that length of time. I think that this 2½ cent rate has been very profitable for the investment dealers. It has brought a considerable amount of money.

COMMISSIONER LEMAN: You tell him exactly what you want to raise in the sense that you would like some 60-day money or some 90-day money or a mixture of various maturities, and you tell him that is what you want sold.

MR. WILLMOTT: Well, we very often tell our investment dealer that we are particularly interested in 90-day money or we tell him we are not interested in a certain bracket.

COMMISSIONER LEMAN: So, this formula of 2½ per cents per month is satisfactory to the finance companies?

MR. WILLMOTT: Well, no commission at all would be more satisfactory.

COMMISSIONER BROWN: You have to satisfy the investment dealer as well as the finance company.

MR. WILLMOTT: But it has worked out very successfully from both the standpoint of the finance company and the investment dealer in raising funds.

COMMISSIONER LEMAN: I did not mean the level of the rate but the method of doing it on the

basis of a commission of 2½ cents per $100 per month.

MR. WILLMOTT: It is a very simple method when you get down to calculating it.

THE CHAIRMAN: That concludes the proceedings for today. I wish to thank you gentlemen for your presence here today and the contribution you have made to the discussion and the very full way in which you have answered the questions put by the members of the Commission. I may say that in reading the brief we are impressed with the great amount of work that has gone into it and the very clear way in which your position has been expressed. Thank you very much.

MR. WILLMOTT: On behalf of our group may I offer thanks for the sympathetic hearing we have had today, Mr. Chairman.

THE CHAIRMAN: We shall now adjourn until tomorrow morning at 9.15 when we shall hear a brief to be presented by the Canadian Consumer Loan Association.

--- Adjournment.

SUBMISSION BY

THE FEDERATED COUNCIL OF SALES FINANCE COMPANIES

TO

THE ROYAL COMMISSION ON BANKING AND FINANCE

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## OPENING STATEMENT

As the national association of sales finance companies in Canada, the Federated Council of Sales Finance Companies welcomes this opportunity to appear before the Royal Commission on Banking and Finance.

Our Brief concentrates on explaining the structure and operations of our industry, and on the presentation of data and information not previously available from other sources. As requested by the staff of the Royal Commission, we have also commented on the competitive environment surrounding our industry, and the impact of monetary policy on its operations.

The Canadian sales finance industry is characterized by keen competition among its own members, as well as from other sources of consumer and business credit. The range of our membership extends all the way from several members which are among the largest financial companies in this country, to many small companies with assets of less than $1 million. Industry competition manifests itself in a variety of manners which are explained in detail in this Brief.

Through its retail financing operations, the sales finance industry serves hundreds of thousands of individual Canadian consumers, and many thousands of Canadian business companies. In 1961, the ten largest sales finance companies in Canada purchased more than 140,000 instalment contracts created through sales of new passenger automobiles, and 218,000 contracts arising from the sale of used automobiles. In addition, these

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Through its retail financing operations, the sales finance industry serves hundreds of thousands of individual Canadian consumers, and many thousands of Canadian business companies. In 1961, the ten largest sales finance companies in Canada purchased more than 140,000 instalment contracts created through sales of new passenger automobiles, and 218,000 contracts arising from the sale of used automobiles. In addition, these

companies purchased more than 247,000 contracts financing the sales of other consumer goods. The combined value of retail consumer instalment paper purchases in 1961 amounted to $722 million. The financing of commercial and industrial equipment totalled $341 million in 1961. These figures illustrate the widespread acceptance of instalment credit which is manifested not only in the volume of transactions financed by sales finance companies, but also in credit supplied to the Canadian consumer by the chartered banks, credit unions, department stores and other retail stores, and a variety of other sources.

While the emphasis of our Brief is on an analysis of the Sales finance industry, the Federated Council of Sales Finance Companies would like to make the following recommendations to this Royal Commission:

(1) That any needed control of consumer credit be achieved by monetary and fiscal policies, clearly communicated to, and equally effective on the operations of, all suppliers of consumer credit.

(2) That no financial institution which competes with other grantors of credit be used as the agency through which monetary policy is conveyed to them, or by which restraint is imposed on their operations.

(3) That legislation requiring disclosure of the charges in or required by any credit instrument apply to all grantors of consumer

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(3) That legislation requiring disclosure of the charges in or required by any credit instrument apply to all grantors of consumer

credit, and that such legislation permit disclosure in a manner that is appropriate to the transaction and the related instrument. The legislation should permit disclosure as a total charge in dollars, the method used in conditional sale contracts for many years, and strongly supported by this Council, but it should also permit disclosure as a rate of interest, for such instruments as mortgages and promissory notes for term loans; or as a monthly rate of charge for department store and other budget and revolving credit accounts; or as a combination of any of these, such as a rate of interest and a monthly rate of charge for instalment loans of some of the chartered banks.

(4) That credit union profits be subjected to income taxes, as bodies corporate, so that they will be induced to discharge the function they were created to perform -- that is to provide a medium for saving at attractive rates and a source of loans at minimum cost. It is submitted that the very existence of profits in a supposedly "non-profit" organization is prima facie proof that it is not functioning as it was intended to function.

(5) That the granting or guaranteeing of government credit extended in competition with private enterprise be restricted to the filling of credit needs which cannot be otherwise satisfied, that the rate at which such lending takes place impose a reasonable burden upon the borrower, that the interest so paid by treated as a non-deductible expense for tax purposes, so that the effect of the subsidy from the public is removed gradually as the profitability of the enterprise increases, and so that the borrower will be attracted toward normal credit sources when his financial position makes him eligible for normal business credit, that no impediments to or penalties for pre-payments be imposed, and that legislation establishing such institutions or arrangements be for a limited period, thus requiring periodic review of need and re-enactment of appropriate statutes.

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# CHAPTER I

## INTRODUCTION

1. The Federated Council of Sales Finance Companies welcomes this opportunity to present a brief to the Royal Commission on Banking and Finance. The purpose of our submission is to provide the Commission with data and information regarding the operation of the sales finance industry in Canada, and to present an analysis and recommendations regarding major public policy issues affecting this industry and related areas of finance and the economy.

2. The membership list of the FCSFC is shown on Table 1.1. In addition to our members, the General Motors Acceptance Corporation of Canada Limited (a non-member) agreed to participate in providing data for this Brief. This company's co-operation in respect of data in no way constitutes endorsement of this Brief, but greatly improves the coverage and the representativeness of our statistics in relation to the total for the Canadian industry, and is gratefully acknowledged.

3. Origin of FCSFC

The Federated Council of Sales Finance Companies is the national association of sales finance companies in Canada. It was formed in 1957, following meetings that were held the previous year between representatives of three or four of the companies and senior officials of the Department of Finance and the Bank of Canada. During these meetings it was suggested

that exchanges of views and information would be facilitated if companies within the industry were to form an association. The Council came into being the following year.

4. Membership and Scope

From a nucleus of eight companies, the Council has grown steadily to its present membership of thirty-five. These companies together represent some 70% of the consumer sales finance instalment credit provided by the industry and more than 90% of the credit extended to business for machinery and equipment purchases. Although there are approximately 175 companies reporting instalment sales credit to the Dominion Bureau of Statistics, many of these concerns restrict their financing services to a single department store, automobile dealership or other retail outlet. As such, they are not eligible for membership in the federated Council, whose members compete for the instalment credit originating in those retail outlets which do not provide their own retail credit accommodation. Of the present Council membership of thirty-five, eight operate on a national basis with the remainder operating locally or within a single province.

5. Objective and Functions

According to its By-Laws the purposes of the Council shall be:

"(a) To promote, foster and develop in every way the sales finance industry and the interests of the firms and corporations engaged in

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According to its by-laws the purposes of the Council shall be:

"(a) To promote, foster and develop in every way the sales finance industry and the interests of the firms and corporations engaged in

such industry for the benefit of the industry, its members and the public.

(b) To provide a forum for the discussion and study of all matters pertaining to the sales finance business and to provide a means of distribution to its members of information pertaining to any problem or matter affecting the industry.

(c) To promote policies calculated to inspire an increasing public confidence in the sales financing business and to improve standards in the industry.

(d) To co-operate with and assist, and to encourage its members to co-operate with and assist, all organizations and agencies striving to improve economic and social conditions."

6. The Council's Officers and Directors believe that sound progress has been made in the brief period of five years which have elapsed since the Council's inception in meeting the obligations of that by-law. The events and developments described briefly below indicate some of the areas in which the Council has endeavoured to fulfill these obligations.

(1) Establishment of a Permanent Office

In January 1960 a permanent office was opened in Toronto, with full-time professional staff. This offiee serves as a clearing-house for press, education-al, government and other representatives

such industry for the benefit of the industry, its members and the public.

(b) To provide a forum for the discussion and study of all matters pertaining to the sales finance business and to provide a means of distribution to its members of information pertaining to any problem or [illegible]

(c) To promote policies calculated to inspire an increasing public confidence in the sales financing business and to improve standards in the industry.

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(i) <u>Establishment of a Permanent Office</u>

In January 1960 a permanent office was opened in Toronto, with full-time professional staff. This office serves as a clearing-house for press, television, government and other representatives

seeking information about the industry.

(2) Annual Conventions

In 1957 the Council inaugurated an Annual Convention, with a program of technical and educational sessions designed to improve the standards and efficiency of the industry. The interchange of ideas at these meetings, and their published proceedings, have made an important contribution to the industry's sound growth. They have also produced valuable background information for outsiders whose work requires an up-to-date appreciation of problems and opportunities in the sales finance industry.

(3) Legislation

The Council has maintained a continuing study of all legislation bearing on the industry and consumer credit generally. It has been able to co-operate with legislators and officials, both Federal and Provincial, in providing an informed and responsible viewpoint on matters within its concern.

(4) Consumer Education

The Council has published booklets, designed to promote wise use of consumer credit. These have been widely distributed to the general public through branch and dealer outlets. In a number of instances, they have been used in high

schools and universities as an aid to understanding the place of consumer credit in modern society.

(5) <u>Public Relations</u>

The Council has not engaged in any major campaigns of a public relations nature, but two of its projects deserve mention as illustrations of the worthwhile achievements made possible by the Council without any sacrifice of competitive advantage.

In 1958-59 the Council sponsored an economic study entitled "Sales Finance Companies in Canada". This study, the first of its kind in Canada, was conducted by Canadian Economic Research Associates. It was subsequently distributed to university high school and public libraries throughout Canada.

During the winter of 1961-62 the Council developed and financed a national "Buy It Now - Do It Now" campaign as part of the Federal Government's Winter Works Program. This campaign, designed and executed in co-operation with officials of the Department of Labour, was directed through several thousand retail outlets served by the sales finance industry and sought to convince the consuming public of the vital link between consumption and employment in the distributive,

servicing and manufacturing industries.

7. Statistical Coverage

The statistical information presented in this Brief is based on (1) a short questionnaire completed by 27 members of the FCSFC who were able to supply statistics generally descriptive of their operations, and (2) more detailed information made available by the ten largest participants in the FCSFC survey, as defined by their total assets, outstanding notes and volume of paper purchased in 1961. This list of ten comprises the following companies:-

Canadian Acceptance Corporation Limited
Commercial Credit Corporation Limited
Delta Acceptance Corporation Limited
General Motors Acceptance Corporation of Canada Limited
Industrial Acceptance Corporation Limited
Laurentide Financial Corporation Ltd.
Redisco of Canada, Limited
Traders Finance Corporation Limited
Union Acceptance Corporation Limited
United Dominions Corporation (Canada) Limited

8. At the end of 1961, the ten companies accounted for $1,277 million in outstanding receivables compared to $1,339 million for the 27 participants in the short questionnaire, and a total of $1,340 million reported by the Dominion Bureau of Statistics at that date. The data compiled here are indicative of a very high coverage in terms of the D.B.S. bench mark data (the ten largest companies account for 95.2 percent of

all outstanding retail receivables as reported by D.B.S., and the ratio for 27 companies rises to 99.9 percent.) The exact degree of coverage is somewhat overstated here because data reported by the government does not include paper financed by U.S. sellers of machinery and equipment through (1) a U.S. based finance company subsidiary or affiliate, or (2) plans set up with a U.S. finance company. In either case there is an importation of sales finance credit, as the sales finance intermediary is not based in Canada. In addition, the total outstanding receivables reported by our members may include capital loans, sundry receivables, etc. Most of the quantitative discussion in this Brief will be based on data supplied in the detailed questionnaires completed by the ten largest companies; where sufficient data are available, coverage will be extended to the full list of 27 participants to improve statistical results. In short, the data in this Brief will be representative of a very high proportion of the sales finance credit extended in this country.

9. Origin and Background of the Sales Finance Industry in Canada

The rise of sales finance companies paralleled the development of the modern mass market for consumer durable goods. In this area no durable commodity played a more significant role than the automobile. In Canada, 535 automobiles were produced in 1904. They were hand-built luxury items which lacked general consumer acceptance because of their high price and no large market for them could be

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## 9. Origin and Background of the Sales [illegible]

The rise of sales finance companies paralleled the development of the modern mass market for consumer durable goods. In this area no durable commodity played a more significant role than the automobile. In Canada, 25 automobiles were produced in 1904. They were hand-built luxury items which involved several consumer acceptance because of their high price and no large market for them could be

stimulated. Immediately following World War I, the Model "T" Ford and its mass production changed the automobile. For the first time, the price of a car came within the reach of a large consumer group.

10. To understand the significance of the role that the automobile played in the development of sales finance companies, it is important to review briefly the four main characteristics of durable goods:

1. They have a unit value which is high relative to other consumer goods.
2. They have an effective life of many years.
3. They are mass produced.
4. They are produced to satisfy a consumer demand.

11. The high unit value and long effective life made the automobile attractive for sales financing. The element of mass production brought the price of the automobile down to a level which in 1920 represented approximately two years' salary of the average Canadian consumer. This took the automobile out of the luxury class, but left it still beyond the reach of the savings of the average Canadian. As established lending institutions, such as the chartered banks, proved unwilling then to take the risk of automobile financing, the Canadian capital market was called upon to provide a credit service that the consumer needed in order to satisfy his demand for this durable -- a demand that in 1920 forced automobile production beyond the 100,000 units a year mark.

12. Thus, the rise of the sales finance

industry is commonly explained as a response to a social need, or the development of a financial institution to fulfill the credit requirements of a particular time and place. While, in the early days, the services of the sales finance companies were used almost exclusively for automobile financing, they have since been expanded to include a long list of other consumer durable goods, as well as the instalment financing of machinery and equipment used by business and industry. In addition, many sales finance companies have diversified into various other types of financing.

13. In Canada the first traces of a mass market for automobiles appear in the late 1900's, when an average of 60,000 vehicles were marketed annually. While the sales finance industry as a formally functioning group did not exist at that time, it is known that the financing of automobile sales started early in the history of the automobile industry, and that a considerable quantity of sales finance volume existed at that time under many other names.

14. As a more narrowly defined industry, the sales finance industry in Canada finds its beginnings in the second and third decade of this century, when a number of predecessor establishments to companies now in existence started operations. In 1916, the Continental Guaranty Corporation Canada (now Commercial credit Corporation Ltd.) was established, and this was followed by a number of incorporations of predecessor companies to the large organizations now found in the sales finance industry today. In March 1919, the first

branch office of General Motors Acceptance Corporation (a New York company) was opened in Toronto. As of November 1953, this company became the General Motors Acceptance Corporation of Canada Limited. In 1920, Traders Finance Corporation Limited was incorporated under Manitoba charter (the company was incorporated in Ontario in 1923 as Traders Finance Corporation (Canada) Limited, and in 1926 these two companies were merged as Traders Finance Corporation Limited under Dominion charter). In 1922, Canadian Acceptance Corporation Limited was established. Industrial Acceptance Corporation Limited, now the sales finance industry's largest company, traces its beginnings in Canada to the establishment of a Canadian branch of the Industrial Acceptance Corporation of South Bend, Indiana, in 1923. This branch was then set up for the exclusive purpose of financing of Studebaker automobiles. This was followed in 1925 by the incorporation of Industrial Acceptance Corporation of Canada Limited -- changed to Industrial Acceptance Corporation Limited in 1928. Transfer of the company into Canadian ownership and control occurred in June 1930. The companies participating in this survey were established under their present corporate make-up as follows:-

| Year of Incorporation | Number of Companies |
|---|---|
| 1920 - 1929 | 5 |
| 1930 - 1939 | 1 |
| 1940 - 1949 | 3 |
| 1950 and later | 18 |
| | 27 |

15. The above data are indicative of unrestricted entry and the nature of competition in the sales finance industry, which will be discussed in detail later.

16. The major functions of the sales finance industry can be summarized as follows:-

(1) To finance instalment sales of durable goods by dealers and distributors to (a) individual consumers, and (b) business and industry. In the vernacular of the industry, this is known as "retail financing", and the instalment contracts purchased are usually called "retail paper".

(2) To finance the sale of durable goods by manufacturers to distributors or dealers. This is called "wholesale financing".

17. A more detailed explanation of these financing functions will be given in Chapter III below, including a survey of related financing activities undertaken by sales finance companies. Today, approximately 175 sales finance companies are known to be operating in Canada, ranging all the way from companies with hundreds of millions of dollars in assets and hundreds of branches, to extremely small companies operating out of a single office and with assets of less than $100,000.

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# CHAPTER II

## THE STRUCTURE OF THE CANADIAN SALES FINANCE INDUSTRY

18. The companies operating in the sales finance industry can be classified as follows:-

(1) Independent sales finance companies which are either Canadian- or foreign-owned and controlled. With the exception of one manufacturer-controlled company, this classification covers the entire membership of the Federated Council of Sales Finance Companies.

(2) Manufacturer, distributor, or retailer-controlled sales finance companies. These are sometimes called "captive" finance companies to indicate a degree of vertical integration between the production and/or distribution facilities, and subsequent financing at the wholesale and retail level.

19. The membership of FCSFC includes one such manufacturer-controlled finance company. In addition, General Motors Acceptance Corporation of Canada, the non-member participant in the data used in this Brief, also falls into this category.

20. A second type of captive finance company is found among distributors and retailers who own separate finance companies which provide instalment credit for purchases made on their premises. An example of this type of company is found in the T. Eaton

Acceptance Company Limited, which purchases the time payment contracts arising out of store and mail order sales by The T. Eaton Company Limited. The Simpsons Acceptance Company performs a similar function for the Robert Simpson Company Limited, while Simpsons-Sears Acceptance Company Limited purchases the instalment accounts receivable arising out of sales made by Simpsons-Sears Limited. Other examples in this area include Woodward Acceptance Company Limited and Hudson's Bay Acceptance Limited. While instalment paper financed by captive department store finance companies is not separately reported in government statistics, they probably account for a major part of the outstanding department store credit. None of these organizations are members of the Federated Council of Sales Finance Companies, and this Brief does not cover their operations or their impact on the Canadian financial system in any manner.

21. Sales finance credit is also extended by manufacturers, dealers and distributors who, because of their financial strength, elect to carry some or all of their own instalment credit paper, without using the specialized services of sales finance companies, or setting up a separate finance company subsidiary for this purpose. Again, these sources of sales finance credit are not represented in the membership of FCSFC. Their absolute and relative importance can be judged from D.B.S. statistics showing the instalment credit paper carried by other retail dealers, as well as the portion of the department stores' instalment paper

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which is not carried by captive finance companies.

22. The importance of consumer instalment credit extended by sales finance companies, and other sources supplying a directly comparable type of credit can be judged by the figures in Table 2.1. Sales finance companies have accounted for more than one-half of all the sales finance credit outstanding in Canada during recent years, with the ratio showing a gradually declining trend, from 61.2 percent in 1957 to 55.0 percent at the end of 1961.

23. The nature and the extent of competition between sales finance companies and other grantors of sales finance credit will be examined in Chapter V; that same chapter also discusses the competition between the sales finance industry and other credit sources which have provided a growing substitute for sales finance credit in recent years. If all reported sources of consumer credit are considered, the sales finance industry has accounted for an average of 20.8 percent of total consumer credit outstanding in the period 1952-1961. Its share of all consumer credit outstanding reached a peak at the end of 1957 when the ratio was 23.7 percent, and has declined steadily since then, reaching 16.4 percent at the end of 1961. (See Table 5.1).

24. The data for retail paper representing the instalment financing of commercial and industrial machinery and equipment provided by the sales finance industry cannot be compared with other yardsticks indicative of the extent to which other credit sources

play a role in this type of financing. A number of manufacturer- and distributor-owned finance companies are known to be extending credit in direct competition, while in other cases such instalment credit is extended from sales finance companies or captive companies located abroad. Balances outstanding on the books of sales finance companies for retail paper of commercial and industrial goods since 1957 have been as follows:-

| End of | Millions of Dollars |
|---|---|
| 1957 | 288 |
| 1958 | 257 |
| 1959 | 344 |
| 1960 | 393 |
| 1961 | 401 |

25. Size Structure of the Sales Finance Industry

The structure of the sales finance industry in Canada is characterized by extreme differences in size. Among the 27 participants in the FCSFC questionnaire prepared for this Commission, there were five companies each with total assets in excess of $100 million at the end of 1961, while at the lower end of the scale there were six companies each with assets of less than $1 million. Table 2.2 summarizes the total asset distribution of the sales finance companies participating in our survey; details are shown for 1953, 1957 and 1961 in order to give a broad indication of absolute and relative size trends in the period 1953-1961. The total cannot be directly compared with official statistics, since the latter include companies

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licensed under the Small Loans Act and affiliates making personal loans which do not operate in the sales finance field.

26. Among the 27 participants in the questionnaire, ten companies were not in operation in Canada in 1953, while five of these were not in existence in 1957. Total assets of the participant group amounted to $850 million at the end of 1953, $1,300 million at the end of 1957, and $1,679 million at the end of 1961. The largest three companies accounted for a declining ratio of the total assets at each of these dates, falling from 82.45 percent to 79.26 percent and then 69.35 percent. Through this period, membership in the largest three group has remained unchanged, with Industrial Acceptance Corporation ranking first, followed by Traders Finance Corporation, and General Motors Acceptance Corporation of Canada.

27. The list of the next seven largest companies in the industry has changed in the period under review, and the membership in this group at the end of 1961 can be seen on page 4 of Chapter I (where the largest ten companies are listed). The 4th to 10th ranking companies have accounted for a gradually rising share of the industry's assets, with their share increasing from 16.97 percent at the end of 1953 to 18.94 percent at the end of 1957, and 27.42 percent at the end of 1961. A picture of the changing membership in this group can be obtained from the fact that among the seven companies included in 1961, two were not yet in operation in Canada at the end of 1953, while a

third is included in both years only by carrying back data for a merger which took place subsequent to 1953. The remaining participants in the survey, respectively 7, 12 and 17 companies at the dates under review, had assets totalling $5, $23 and $54 million, or 0.58, 1.80 and 3.23 percent of the industry's assets at these year-end dates.

28. Since receivables account for the largest share of a sales finance company's assets, concentration ratios for receivables outstanding closely resemble those for total assets. As Table 2.3 shows, total year-end outstandings (retail and wholesale) of the participating sales finance companies amounted to $797 million at the end of 1953. By the end of 1957 they had increased to $1,193 million, and by the end of 1961 they amounted to $1,339million. The largest three companies accounted for 82.09, 78.57 and 69.36 percent of all outstandings at these dates, while the concentration ratio for the next largest seven companies corresponding to these dates was 17.45, 19.59 and 26.75 percent.

29. A comparison between the data submitted by our members and those reported by D.B.S. for the sales finance industry at the end of 1957 and 1961 shows that the 27 participants reporting in 1957 had outstandings amounting to $1,193 million, as against $1,269 million reported by D.B.S. (or 94 percent of the D.B.S. total). At the end of 1961, the two figures were virtually identical. However, the comparability of these data is affected by the fact that the fiscal year of a number of our members does not end on December 31st, so that

third is included in both years only by carrying back data for a merger which took place subsequent to 1953. The remaining participants in the survey, respectively 7, 11 and 11 companies at the three year-end dates, had assets totalling $5, $23 and $24 million, or 0.58, 1.80 and 3.23 percent of the industry's assets at these year-end dates.

28. Since receivables account for the largest share of a sales finance company's assets, concentration ratios for receivables outstanding closely resemble those for total assets. As Table 2.3 shows, total year-end outstandings (retail and wholesale) of the participating sales finance companies amounted to $797 million at the end of 1953. By the end of 1957 they had increased to $1,193 million, and by the end of 1961 they amounted to $1,339million. The largest three companies accounted for 82.09, 78.57 and 69.36 percent of all outstandings at these dates, while the concentration ratio for the next largest seven companies corresponding to these dates was 17.45, 19.59 and 26.75 percent.

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the figures provided by these companies are really applicable to the end of their individual 1957 and 1961 fiscal years.

30. However, the very high ratio of outstandings of our participants to those reported by D.B.S. for both 1957 and 1961 show that the companies providing data for this survey, account for a large percentage of the business of the entire sales finance industry in Canada. Since wholesale financing data were not reported by D.B.S. prior to 1956, no comparison of the total outstandings can be made for 1953.

31. Total consumer goods' instalment paper outstanding by the group of participating companies increased from $483 million at the end of 1953, to $714 million at the end of 1957, and $735 million four years later. Data and concentration ratios for the largest three, the next seven and all other companies are shown in Table 2.4. The largest three companies in the industry accounted for 81.65, 78.83 and 70.98 percent of the outstanding consumer goods paper at these dates, a declining ratio which closely parallels their share of total outstandings and total assets. The next seven largest companies show a ratio of 17.74, 18.83 and 25.56 percent at these dates, leaving the remaining companies a share of 0.61, 2.34 and 3.46 percent -- a small but rising relative share.

32. In our survey data, the increase between 1957 and 1961 in both total outstandings and consumer instalment paper outstanding, is the result of increases recorded by the smaller members of the industry, which

the figures provided by these companies are really applicable to the end of their individual 1957 and 1961 fiscal years.

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32. In our survey data, the increase between 1957 and 1961 in both total outstandings and consumer instalment paper outstanding, is the result of increases recorded by the smaller members of the industry, which

is somewhat offset by a decline in the combined outstandings reported by the largest three companies.

33. Outstanding balances of retail commercial and industrial equipment and machinery paper and their distribution among companies are summarized in Table 2.5. Only eleven companies in our survey reported this type of financing in 1953, with the largest ten accounting for 99.99 percent of the outstanding paper. At that time the largest three companies accounted for 79.64 percent of the outstanding balances, while the next seven companies had 20.35 percent. By the end of 1957, 16 of our survey participants reported outstandings in this category, with the largest three companies accounting for 78.99 percent, the next seven companies 20.81 percent and the other six companies 0.27 percent. By the end of 1961, the share of the largest three companies had declined to 66.53 percent, while that of the next seven companies increased to 31.90 percent, and that of the remaining companies rose to 1.57 percent. At that time, 18 of our participants reported to be active in the financing of commercial and industrial equipment and machinery. In this area of financing, the list of the largest three companies (and also largest ten companies) is not identical with that for total assets, and retail consumer paper. This difference occurs because of specialization by several companies in industrial and commercial sales financing.

34. Wholesale financing balances outstanding show a somewhat higher ratio of concentration in the industry than retail financing balances, with the three

largest companies accounting for 87.04, 85.66 and 79.63 percent of total balances at the three dates under review. Total balances outstanding among participants in our survey increased from $135 million at the end of 1953, to $206 million at the end of 1957, and subsequently declined to $197 million at the end of 1961. The number of participants reporting such financing were respectively 9, 14 and 19 companies. The 4th to 10th largest companies accounted for 12.96, 13.95 and 19.18 percent of all balances, while the remaining companies in 1957 and 1961 accounted for 0.39 percent and 1.19 percent respectively. As Table 2.6 shows, the participants in the FCSFC survey accounted for more than the reported D.B.S. figures in wholesale outstandings at the end of both 1957 and 1961; the main reason for this difference is believed to be a seasonal factor arising from the fiscal year dates of some of the participating companies.

35. On the basis of the above discussion, we conclude that the Canadian sales finance industry in the period 1953-1961 shows:-

(1) a high, but gradually declining degree of concentration of assets and outstandings among the top three companies;

(2) a rising absolute and relative importance of the next seven largest companies, giving the ten largest companies a concentration ratio of more than 95 percent in each instance;

(3) a gradually rising (though still small)

absolute and relative importance for the remaining companies, and a noticeable increase in the number of these smaller companies, indicative of a freedom of entry into the sales finance industry.

36. Since adequate data on the volume of instalment paper purchased by our participants are available in sufficient detail only for the larger companies, comparisons in this area are based on the detailed questionnaires provided by the largest ten companies. (In all cases where data applicable to the ten largest companies are used, reference is made to ranking on the basis of 1961 data; the list of companies included here is shown on page 4 in Chapter 1. As Table 2.7 shows, these ten companies have accounted for an average of 82.1 percent of all the passenger car (new and used) instalment paper purchased in the years 1953-1961 inclusive, on the basis of D.B.S. statistics. The ratio of the ten largest companies is also found to be declining in this instance, and amounted to 78.3 percent in 1961. Other comparisons involving the amount of various types of instalment paper purchased will be found in Chapter III.

37. In the last decade, the 27 sales finance companies participating in the FCSFC survey report the acquisition, purchase or merger of 11 Canadian finance companies. Details about these transactions were not provided. Only three of our participants reported the acquisition of more than one such company. Among the seven individual companies reporting such acquisitions,

four companies were among the list of largest ten companies. In general it would seem that in the last decade, mergers and acquisitions have played only a very minor role in the overall development of the Canadian sales finance industry.

38. As already noted, the data provided by our participants show that a significant number of companies have entered the ranks of the industry in the period under review, suggesting that there are no artificial impediments to entry into the industry, and that the nature of competition is such as to permit newcomers to secure a place in the industry. Thus, a total of 15 of the 27 companies providing answers to our questionnaires have started operations in Canada since 1950, and four of these are now in the list of ten largest companies on the basis of 1961 data.

# CHAPTER III

## THE FUNCTIONS AND THE OPERATIONS OF THE SALES FINANCE INDUSTRY

39. The primary function of the sales finance industry is to provide wholesale and retail financing. The industry also fulfills a financial role in providing capital loans, real estate loans, leasing and other financial activities. This chapter examines these financing functions. In historical terms, the wholesale financing role of the industry emerged after sales financing of durable goods at the point of retail sale had started. However, since in the process of financing a particular article, wholesale credit is provided before retail instalment credit, the operations of the sales finance industry will be examined in this sequence.

40. Wholesale Financing

The wholesale financing activities of the sales finance industry in Canada are almost wholly confined to the automobile field. While the companies have plans for wholesale or inventory financing of other durable goods, most manufacturers in these other lines provide their dealers with adequate credit arrangements. Because of the need for mass production, the manufacturer of automobiles concentrates his production facilities, and generally speaking, such productive capacity is not conveniently located near areas of local demand. However, it is essential to the sale of automobiles that inventories are held as near to the

potential buyer as possible. This is accomplished by establishing a chain of franchised dealers to carry inventory in a local area, and this arrangement establishes a closer relationship between the manufacturer and the eventual buyer. By inducing independent businessmen to become dealers and to invest capital in distribution outlets, the manufacturer solves only a part of his problem, since he also wants to obtain rapid payment for automobiles produced and delivered to the dealer.

41. Because of the high unit cost of the produce and the need for large inventories at the retail level, as well as the typical size and financial strength of the dealer, the average dealer is unable to pay the manufacturer until the vehicle is sold. On the other hand, in order to avoid the tie-up of huge amounts of capital, manufacturers require payment for their products as soon as they reach the dealer. Thus the distribution system of the automobile industry requires some method of financing the dealers' inventory, and since other sources of business credit were not prepared to provide this form of credit, the sales finance industry gradually came to provide this service, and developed a simple and sound technique for handling this particular kind of credit.

42. The wholesale financing process can be described as follows: An automobile dealer selects the finance company he wishes to deal with, and the latter establishes both wholesale and retail credit lines for the particular dealer. These are based on an analysis

potential buyer as possible. This is accomplished by establishing a chain of franchised dealers to carry inventory in a local area, and this arrangement establishes a closer relationship between the manufacturer and the eventual owner. By inducing independent businessmen to become dealers and to invest capital in distribution outlets, the manufacturer solves only a part of his problem, since he also wants to obtain rapid payment for automobiles produced and delivered to the dealer.

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42. The wholesale financing process can be described as follows: An automobile dealer selects the finance company he wishes to deal with, and the latter establishes both wholesale and retail credit lines for the particular dealer. These are based on an analysis

of the dealer's financial position, his business experience, his reputation in the community, his character and capacity, age and health, the product he sells, its market acceptance, probable volume, etc. When vehicles ordered by the dealer are ready for shipment, the manufacturer presents a wholesale conditional sale contract, signed on behalf of the dealer by his attorney (who can be a nominated representative of the finance company, or, alternatively, someone on the staff of the manufacturer) to the local office of the sales finance company. The latter pays the manufacturer (after a delay equalling the approximate transit period) who thus receives cash as the vehicles reach the dealer. The sales finance company automatically provides insurance for the vehicles against physical damage hazards. The sales finance company acquires the manufacturer's title and interest in the vehicle, and although the conditional sale agreement is payable on demand, the working arrangement is that the dealer pays the sales finance company as each vehicle is sold at retail. The pattern of rates on wholesale financing will be discussed in Chapter IV, pages 39-40.

43. The total value of wholesale paper purchased by the ten largest companies, as well as all participating in our questionnaire survey in the period 1953-1961 is shown in Table 3.1. This volume has exceeded the $1 billion level in every year but 1954. In recent years, in spite of increased competition at the retail financing level, and a gradually declining share of the sales finance companies in retail financing,

wholesale financing has been at an all time high, averaging $1,476 million in the years 1959-1961. It should be noted also that comparable D.B.S. figures available since 1956, are consistently lower than those provided by participants in our survey.

44. Most of the automobiles produced in or imported into Canada, are placed on the floors of automobile dealers with credit provided by the sales finance industry, and estimates provided by several of our participants suggest that between 90 and 95 percent of all vehicles sold in Canada are financed in this manner.

45. Retail Financing

Retail financing by sales finance companies is a more diversified activity than the wholesale financing. It is classified according to the major purpose of the goods financed, i.e. (1) financing purchases made by consumers for non-business purposes, and (2) financing the sales of revenue-producing commercial and industrial equipment. Among the consumer goods financed, new and used passenger automobiles rank first in importance; the remaining goods are classified under a catch-all heading of "other consumer goods", including refrigerators, washing and drying machines, television sets, radios, stereophonic sound equipment, etc.

46. (A) Consumer Goods

In financing the purchase of consumer goods, the sales finance industry provides a credit service which is unmatched in respect to the efficiency

at which credit is provided, as well as the range of risks that are financed. One of the major conveniences offered in sales financing lies in the "one stop - one package" characteristic of its service. Thus, the purchaser is able, at the point of sale, to make his choice of car or other durable good, arrange for insurance, and finance the balance over a period convenient to his budget. To assure convenience and service to the consumer, the retail dealer usually performs the credit interview, and it is not until after the contract is signed that the sales finance company may come into the picture, if the dealer elects to discount the conditional sale contract with the sales finance company with which he normally does business. The sales finance company, in turn, does not have any contact with the consumer until after the instalment sale has been created, and since it cannot evaluate each purchaser on the basis of a personal interview, it must depend on its skill and facilities to evaluate the risk. The sales finance company counts on its dealers for a continuing flow of instalment contracts of acceptable credit quality.

47. As a matter of sound credit policy, the sales finance company tries to avoid doing business with unscrupulous retailers who may sell inferior merchandise, render inadequate service, or otherwise deceive the buying public. The sales finance companies, in discounting the retailer's instalment paper, recommend that the purchase agreement for the article fulfills the conditions of having a sufficiently large

down payment and a short enough repayment period to assure that the purchaser has a net positive equity in the good he has bought at all times. The inherent soundness of consumer credit extended by the sales finance industry manifests itself in several ways. Statistics relating to the liquidation of instalment paper suggest that approximately 2/3 of sales finance paper outstanding in the consumer durable field liquidates within 12 months, 5/6 within 18 months, and more than 90 percent within 24 months. Also, data supplied by the ten largest companies on delinquencies in instalment payments show that such delinquencies are held to a very low level in the sales finance field.

48. Table 3.2 summarizes the purchases of total consumer goods instalment paper in the period 1953-1961. Details are shown for the largest ten companies, as well as all companies reporting details. In addition, available figures from D.B.S. are shown.

49. Table 3.3 summarizes details on consumer goods instalment finance paper purchased by the ten largest companies in the period 1953-1961. The value of new automobile paper purchased by the ten largest sales finance companies since 1953 has ranged from a low of $267 million in 1954 to a high of $466 million in 1956, and has averaged $379 million for the nine-year period under review. Assuming that each contract reported represents the purchase of one new vehicle, the ten sales finance companies financed an average of 162,000 vehicles annually for the period under review, accounting for an estimated 41 percent of all the new

down payment and a short enough repayment period to assure that the purchaser had a net positive equity in the good he has bought at all times. The inherent soundness of consumer credit extended by the sales finance industry manifests itself in several ways. Statistics relating to the liquidation of instalment paper suggest that approximately 2/3 of sales finance paper outstanding in the consumer durable field liquidates within 12 months, 5/6 within 18 months, and more than 90 percent within 24 months. Also, data supplied by the ten largest companies on delinquencies in instalment payments show that such delinquencies are held to a very low level in the sales finance field.

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passenger vehicles sold in Canada during this period. This ratio, however, has declined in recent years, and in 1961 this sales finance industry group accounted for only 32 percent of all the new vehicles sold: The average balance including the unpaid cash balance, insurance (if any), and finance charge per new car instalment contract has risen gradually from $1,798 in 1953 to $2,483 in 1961.

50. Used auto instalment paper purchased by the ten companies in the period 1953-1961 has ranged from a low of $222 million in 1961 to a high of $323 million in both 1956 and 1957. The number of units financed shows a gradual decline, having reached peaks for the period under review in 1953 (378,000) and 1957 (374,000), and amounting to only 218,000 units in 1961. The average amount per contract amounted to $844 in 1953, and $1,017 in 1961.

51. The value of instalment paper purchased arising out of the sale of other consumer goods has ranged from a high of $141 million in 1959 and 1960 to a low of $91 million in 1954, and averaged $124 million in this nine-year period. The number of individual instalment contracts creating this volume appears to be gradually declining and amounted to 247,000 contracts in 1961, in comparison to 385,000 contracts in 1953. The average balance has increased from $325 in 1953 to $502 in 1961. On the basis of comparison with D.B.S. data, the largest ten companies have accounted for an average of 71.2 percent of all the "other consumer goods" instalment paper purchased by the sales finance

ssenger vehicles sold in Canada during this period. [illegible] ratio, however, has declined in recent years, and in 1961 this sales finance industry group accounted for only [illegible]2 percent of all the new vehicles sold. The average balance (including the unpaid cash balance, insurance (if any), and finance charge per new car instalment contract has risen gradually from $1,798 in 1953 to $2,43[illegible] in 1961.

20. Used auto instalment paper purchased by the ten companies in the period 1953-1961 has ranged from a low of $299 million in 1961 to a high of $392 million in both 1956 and 1957. The number of units financed shows a gradual decline, having reached peaks for the period under review in 1953 (378,000) and 1957 (374,000), and amounting to only 318,000 units in 1961. The average amount per contract amounted to $844 in 1953, and $1,0[illegible] in 1961.

21. The value of instalment paper purchased arising out of the sale of other consumer goods has ranged from a high of $14[illegible] million in 1959 and 1960 to a low of $91 million in 1954, and averaged $124 million in this nine-year period. The number of individual instalment contracts creating this volume appears to be gradually declining and amounted to 247,000 contracts in 1961, in comparison to 395,000 contracts in 1953. The average balance has increased from $325 in 1953 to $5[illegible]2 in 1961. On the basis of comparison with D.B.S. data, the largest ten companies have accounted for an average of 7[illegible].8 percent of all the other consumer goods instalment paper purchased by the sales finance

industry.

52. (B) Commercial and Industrial Equipment

Industrial retail financing by the sales finance industry is a general classification covering the acquisition of instalment paper created by sales of revenue-producing commercial or industrial machinery and equipment. In this area, the industry provides an intermediate type of financing which comes between the chartered banks' function of providing demand short term credit and overdraft accommodations, and long term equity and bond financing provided by investment houses. In Canada, this type of sales financing is available for all types of revenue-producing machinery and equipment. Each sales finance company does not necessarily provide funds in all fields, but the group as a whole supplies financing for the full range of revenue-producing machinery and equipment. Data supplied by individual members of the FCSFC suggest that some companies -- including smaller members of the Council -- specialize in this type of financing. In one case a company reported its entire outstandings under this classification, indicating that this sales finance company was not active in the consumer credit field, and confined its activities to financing industrial and commercial goods.

53. The business customers of the sales finance industry are engaged in all phases of Canadian industry, and generally sales finance companies only require that the equipment they finance is revenue-producing, and that an assessment of the credit risk

indicates the purchaser's ability to pay for the equipment out of the revenue generated by its use. Following is a typical list of products regularly financed by the industry:

Agricultural Equipment

Air Conditioning Equipment

Bakery Machinery & Equipment

Barber Equipment

Beauty Parlor Equipment

Boilers (Commercial)

Bottle Coolers

Bottling Machinery & Equipment

Brick & Tile Machinery

Coffee Grinders & Roasters
(Electric & Commercial)

Commercial Refrigerators
(Display Cases, Storage Cabinets)

Construction Equipment

Creamery Machinery & Equipment

Dairy Machinery & Equipment

Dental Equipment

Diesel & Gas Engines (Stationary)

Dish Washers (Commercial)

Doctors' Equipment

Dry Cleaning Equipment

Electric Generators (Diesel & Gas)

Embossing Machines

Engraving Machinery

Envelope Making Machinery

Food Handling Equipment

Fluorescent Lighting (Commercial)

Garage Equipment

Heating Equipment (Commercial)

Hotel and Restaurant Equipment

Ice Cream Machinery & Cabinets

Industrial Stokers

Lathes

Laundry Machinery

Logging Equipment

Low-Bed Trailers

Machine Shop Equipment

Machine Tools

Machinery & Equipment (Miscellaneous)

Materials Handling Equipment

Medical Equipment

Milling Machines

Mining Equipment

Motion Picture Equipment

Office Furniture

Packaging Machinery

Plating Machinery & Equipment

Power Generating Equipment

Printing Machinery & Equipment

Quilting Machinery

Radio Testing Equipment

Refrigeration (Commercial & Apartment House)

Sawmill Equipment

Scales (Heavy Duty)

Service Station Equipment

Shoe Machinery

Show Cases & Fixtures

Soap Machinery

Soda Fountain Equipment

Store Fixtures & Refrigetation

Surgical Equipment

Textile Machinery

Theatre Chairs & Equipment

Trailers (Commercial)

Trucks

Two-Way Radio Communication Systems

Vending Equipment

Water Softeners (Commercial)

Welding Equipment

X-Ray Machinery

54. Tables 3.4 to 3.7 summarize available data on the volume of paper purchased and balances outstanding in the period 1953 to 1961. As Tables 3.4 and 3.5 indicate, the group of companies participating in our survey accounted for more than 97 percent of all commercial vehicle financing, and slightly more than 87 percent of the financing of all other commercial and industrial goods (on the basis of comparisons with D.B.S. data). The slightly higher figure reported by our participants in comparison to the D.B.S. total for some years is again believed to be caused by differences in fiscal years and calendar years among some of the participants. Outstanding balances at year-end for this type of financing are shown in Tables 3.6 and 3.7,

[illegible]

Show Cases & Fixtures

Shoe Machinery

[illegible]

Store Fixtures & Refrigeration

Surgical Equipment

Textile Machinery

Theatre Chairs & Equipment

[illegible] (Commercial)

Trucks

Two-Way Radio Communication Systems

Vending Equipment

[illegible] (Commercial)

Welding Equipment

X-Ray Machinery

14. Tables 3.4 to 3.7 summarize available data on the volume of paper purchased and balances outstanding in the period 1955 to 1961. As Tables 3.4 and 3.5 indicate, the group of companies participating in our survey accounted for more than 97 percent of all commercial vehicle financing, and slightly more than 69 percent of the financing of all other commercial and industrial goods (on the basis of comparisons with D.B.S. data). The slightly higher figure reported by our participants in comparison to the D.B.S. total for some years is again believed to be caused by differences in fiscal years and calendar years among some of the participants. Outstanding balances at year-end for this type of financing are shown in Tables 3.6 and 3.7.

and show a similar relationship to the D.B.S. data.

55. The breakdown between commercial vehicles and all other industrial and commercial equipment emphazes a generally divergent trend in the volume of financing among these two groups. While commercial vehicle financing has ranged between $130 and $150 million during most of the years under review, and shows at best a moderate upward trend, the financing of other commercial and industrial goods has increased sharply, rising from an average of $69 million in the years 1953-1955, to $186 million in the years 1959-1961. This indicates a growing emphasis by sales finance industry in Canada on this type of business financing.

56. Sales finance companies organize commercial and industrial equipment financing in several ways. Their practices can be described only in general terms, with recognition that differences exist among various companies. Some of the larger companies handle the financing in a separate department or branches of the organization, while in other instances industrial specialists will be attached to the branches handling consumer retail credit. The credit-screening process is a detailed one, particularly if the amount of financing involved is large. The size of a particular transaction can range up to as much as $500,000, with a typical balance lying in the range of $5,000 to $15,000. There are no hard and fast rules for cash down payments, and the acceptable initial equity (cash down payment plus allowance for a trade-in) must take into consideration whether the type of equipment financed is new or

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used, its effective rate of depreciation, the required financing term for the remaining balance, and the credit rating of the customer. Acceptable initial equities can therefore run as low as 10 percent, but it is customary practice to try and obtain 15 percent to 25 percent initial equity on new equipment, and 25 percent to 35 percent on used equipment. Repayment terms are usually set to suit the needs of individual customers. Sometimes they are related to depreciation write-offs, or to the income produced if the equipment is used seasonally. Repayment terms on commercial and industrial goods, excluding commercial vehicles, have been compiled by D.B.S. in the last four years, showing an average of 25.1 months in 1958, 26.9 months in 1959, 27.9 months in 1960, and 29.8 months in 1961. Insurance provisions vary among companies, but usually evidence of coverage broad enough to protect the purchaser's and the finance company's investment in the equipment, during the term of the contract, is required.

57. Capital Loans to Dealers (Automobiles and other durable goods)

A sales finance company supplying a dealer with wholesale and retail financing services is often requested by the dealer to provide short- or long-term capital loans. These loans are mostly made to automobile dealers and are used to improve the dealer's facilities, through construction of a new building, the enlargement or extensive modernization of existing premises, and for working capital. Since each capital loan is designed for the specific requirements of a

dealer, there is no standard competitive pattern. Security for the loans may range all the way from an unsecured loan, to a first mortgage on lands and buildings. Terms of repayment may range from one to several years, based on the size and the purpose of the loans. These assist alert and progressive dealers to achieve full potential by supplying them with adequate capital. Frequently, a dealer will not qualify for such credit from other lending institutions, and the sales finance company generally accepts such capital loans as part of its operations to round out its service to dealers.

58. While automobile dealers are the main recipients of such capital loans, they are also made to dealers who utilize the sales finance company's machinery and equipment financing plans. As Table 3.8 shows, capital loans to dealers outstanding on the books of the largest ten sales finance companies have increased from less than $3 million at the end of 1953 to more than $14 million eight years later. The number of individual contracts outstanding for capital loans to dealers has risen from 232 contracts in 1956 to 637 in 1961.

59. Business Term Loans

Sales finance companies have offered a capital loan service to other lines of business, often independent of any sales financing activity for many years. In these cases, this capital loan service is not related to existing sales finance business, and provides intermediate or longer term funds for projects. For example, capital loans are frequently made to finance

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the furnishings or interiors of hotels and motels, to provide interim financing in the construction field until long term financing can be arranged, to finance inventories or to provide funds to a borrower who wishes to pay out a partner. As these capital loan plans among several of our members have assumed significant proportions only in recent years, sufficient data to indicate their importance are not yet available.

60. Leasing

While some sales finance companies believe that the user of industrial machinery and equipment is generally better off to purchase this equipment, the demand for leasing is now accommodated by a number of our participants who will finance such transactions either by discounting the lease, or, if necessary, by assuming the position of owner and lease to the user.

61. Real Estate Loans

While real estate loans do not play a major role in the business of sales finance companies, a number of them make such loans from time to time. However, a number of sales finance companies operate separate real estate financing subsidiaries. Examples include Capital Funds IAC Limited, Traders Realty Limited, and United Dominions Investments Limited.

62. Personal Loans

While some of the companies participating in our survey are in the personal cash instalment loan field with subsidiaries organized as small loan companies, this Brief does not deal with this phase of their

activities. A separate submission to this Royal Commission has been prepared by the Canadian Consumer Loan Association, and this Brief discusses the operations of the personal loan industry.

63. Insurance Operations

To protect the investment of the purchaser, of the motor vehicle dealer and of his sales finance company, if they purchase the contract, a lien sale agreement normally provides that the conditional purchaser must provide insurance protection against loss from physical damage to the vehicle from collision, fire, theft and other hazards. The same principle applies to the financing of any other durable good when the investment involved is substantial and physical damage hazards exist.

64. Motor vehicle dealers and their sales finance companies have had difficulty in establishing a stable market for physical damage insurance in the past. Prior to 1948, one sales finance company established its own insurance subsidiary after having had successive arrangements with seven different insurance companies on a national basis, and a great many local agents. Each arrangement was cancelled by the insurance company involved because of unprofitable underwriting experience, eventually leaving the sales finance company with no alternative but to organize its own insurance company. Other companies, after similar experiences, followed suit in establishing their own insurance subsidiaries or affiliates. As Table 3.9 shows, seven out of the ten largest sales finance companies are today directly

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or indirectly integrated in the automobile casualty field. From an investment standpoint, some companies operate their insurance subsidiaries in the general casualty field independently of their sales financing activities. Others also develop business directly with the public, in addition to business originating from sales financing sources. Sales finance companies operating on a local basis, or on a limited scale usually make their insurance arrangements through independent insurance companies.

65. By establishing their own insurance subsidiaries, sales finance companies have been able to meet all the requirements of the time buyer, time seller and the sales finance company, and avoid all the difficulties noted above. As might be expected, the loss ratio of insurance companies owned by or affiliated with sales finance companies is usually higher than that of other automobile insurance companies.

66. The sales finance company-owned or affiliated insurance companies also provide the following specialized insurance services for their manufacturer, distributor and dealer customers:-

(1) physical damage and transportation coverage for all automobiles being financed at wholesale;

(2) collision insurance on motor vehicles being driven directly from the manufacturer to the dealer's place of business;

(3) automatic coverage on home appliances

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(2) collision insurance on motor vehicles being driven directly from the manufacturer to the dealer's place of business;

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and certain articles of commercial and industrial equipment where the issuing of individual policies would not be economical.

# CHAPTER IV

## THE CREDIT MECHANISM OF THE SALES FINANCE INDUSTRY AND THE FINANCE CHARGE

### 67. Retail Sales Finance Credit

Sales finance credit is created as the result of the selling of goods, and this distinguishes it from other major types of credit (such as that extended by chartered banks, small loan companies, credit unions, etc.) which involve the lending of money for certain specified purposes. The process by which sales finance credit comes into existence can be sketched as follows: after having agreed on the purchase price for a particular durable good, the instalment buyer pays the dealer a down payment (consisting of cash and/or an allowance for a trade-in good) and signs an agreement of conditional sale which specifies the amount of the unpaid balance, plus the finance charge and other charges such as registration fees, insurance (if any), etc. The agreement also stipulates in what amounts and at what intervals payments will be made. At this stage of the transaction, the conditional sale contract is the property of the seller, and as we have noted in Chapter II, some dealers carry their own instalment paper without using the services of a sales finance company. However, the sales finance company provides the dealer with the opportunity of reducing his accounts receivable (and hence his capital requirements) by offering to discount acceptable conditional sale contracts.

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68. While the sales finance company does not enter into the instalment credit transaction until such time as a dealer elects to discount his instalment paper with a company of his choice, it offers the dealer the important service of credit investigation, which he can use to check the credit rating of a particular buyer. This credit investigation service is particularly important when the dealer has no previous experience with the particular buyer, and its wide use is considered an important factor in the highly satisfactory performance of sales finance receivables over a long period of years.

69. If the dealer elects to sell the instalment contract to a sales finance company, he adds his assignment, and mails or delivers it to the nearest office of the sales finance company. In checking the contract, the sales finance company satisfies itself about the credit rating of the purchaser, and other quality aspects of the paper, such as the value of the down payment, and the terms of repayment. In assessing the latter factors, sound instalment credit practices require that the purchaser of the good retains at all times a net positive equity in his purchase; i.e., that the balance owing on the instalment sales contract remains below the probable realizable value of the good throughout the life of the contract. If these requirements are reasonably met, the sales finance company issues its cheque, notifies the purchaser that it has purchased his contract, sends him a transcript of the account and explains that payments are to be

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made at its office, either by mail or in person.

70. To recapitulate, retail sales financing has two important characteristics not found in other types of credit. First of all, it is created only in conjunction with the sale of a durable good, involving mostly time-, labour- and/or money-saving products for the consumer, or revenue-creating equipment for business and industry. There is no exchange of money between the purchaser and the credit grantor at the time of the sale (other than the cash down payment). Secondly, as far as the function of the sales finance company is concerned, it plays no direct role in the creation of this credit, and faces a derived demand for its credit services, which arises only after the transaction has been completed and the dealer decides to discount his paper with a sales finance company. However, in the ordinary course of events, after a dealer and a sales finance company have decided to do business together, their relationship will be generally such that the dealer has a ready and willing buyer for the volume of sound instalment credit he creates.

71. Legal Aspects of the Conditional Sale Agreement

The main features of legislation under which sales finance companies operate today in Canada can be summarized as follows:

(1) Sales finance companies finance chattels known as "personal property", as opposed to land or "real property". Under the British North America Act, the provinces

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have exclusive jurisdiction over property and civil rights within the provinces, and for this reason there is very little federal legislation affecting the sales finance business.

(2) Provincial legislation covers the following major aspects of the sales finance business:

(a) Statutes governing conditional sales - With the exception of Quebec, all provinces have separate statutes governing conditional sales; in Quebec, the law governing the conditional sale is set out in the Civil Code. The contracts must be in writing, signed by the buyer, and must contain a description of the goods and the terms and conditions of sale. A copy of the contract must be delivered to the buyer.

(b) Registration requirements - In all provinces escept Quebec and Manitoba, a conditional sale contract should be properly registered in the appropriate registry office.

(c) Repossession - Goods sold under a conditional sale contract may generally be repossessed from a buyer by the seller or his assignee for breach of a condition of the contract.

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72. While conditional sale contracts and chattel mortgages deal with matters concerning property, and therefore are a proper subject for provincial legislation, the laws of the provinces differ from one another in many particulars. The Conference of Commissioners on Uniformity adopted Uniform Acts for conditional sale contracts and for chattel mortgages in 1955, but these Acts have not been adopted by any province. Large portions of the Uniform Conditional Sales Act have been adopted by British Columbia, Saskatchewan and Newfoundland, but there are differences between these three provincial Acts, and each of them, in turn, differs from the Uniform Act.

73. Instalment credit sales are accepted business transactions in all provinces of Canada, and if statutes applicable to them were uniform, this would benefit sellers, buyers and third parties by a standardization of forms and procedures which would simplify administration and reduce costs. With uniform statutes, decisions of the Courts in one province would have a greater bearing in other provinces since there would be no slight differences in wording to afford grounds for distinction.

74. While increasing competition from more and more sources of credit provides effective regulation of the sales finance industry, the FCSFC believes that if any additional legislation affecting the sales finance industry is contemplated in the future, it should be undertaken in consultation and co-operation with this industry.

75. The Finance Charge

The "price" at which sales finance credit is extended when a durable good is sold on an instalment basis is usually known as the finance charge. The sale of a particular good either for cash, or, on an instalment basis to a consumer (or business), and the subsequent discounting of the instalment paper with a sales finance company creates three price possibilities:

(1) The cash price for the good which is purely a matter of bargaining between the dealer and his customer, having regard for such factors as trade-in allowances, extra equipment (in the case of automobiles), etc.

(2) The "time" price for the same transaction, which arises if the customer decides to use instalment financing.

(3) The price at which the sales finance company purchases instalment paper from the dealer.

Among these, the second and the third price are relevant to the sales finance transaction.

76. The time price in the transaction between the dealer and the purchaser is determined by: the amount of the unpaid balance, the period and method of repayment requested by the customer, the type of good financed, and an assessment of the customer's credit worthiness. In arriving at this time price for the instalment sale, dealers normally use rate charts supplied by the sales finance companies which state

monthly payments. For the purposes of this Brief, our members have compiled statements showing the estimated dollar finance charge of their dealers on two separate transactions believed to be representative of consumer retail instalment financing: (1) the finance charge on a new automobile for a balance of $2,000 payable over 30 months, and (2) the finance charge on a new refrigerator for a balance of $300 payable over 24 months. A discussion of the finance charge on typical industrial equipment or machinery is also included.

77. Data on the finance charge to the consumer on a new automobile for an unpaid balance of $2,000 payable over 30 months as reported by 17 of the participants in our survey are summarized in Table 4.1. The year-end figures presented in Table 4.1 are based on a ranking from lowest to highest finance charge reported in 1961. In some cases, companies report a range of possible finance charges. For those companies the range is shown, and both the high and low end of the ranges have been taken into account in computing measures of central tendency (the median and modal finance charge in each year). The mode of the finance charges arrayed in Table 4.1 remained unchanged between 1953 and 1959 at $400; in 1960 the three modes appear ($353, $400 and $475, with three companies reporting each of these values), while in 1961 it amounted to $353. The mode in this case does not appear to be meaningful, and in no instance was it reported by more than four companies. The median, on the other hand, shows a more distinct movement, rising gradually from

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$400 in 1953 to $451 in 1957, and declining subsequently -- with the exception of a rise in 1959 -- to $405 in 1961.

78. As far as direct comparisons are possible, the finance charge reported by six out of ten companies increased between 1953 and 1957, while eight out of fourteen companies reporting in 1957 and 1961 showed a decrease in the finance charge in this period. Table 4.1 also emphasizes the divergence in the reported finance charges.

79. Table 4.2 summarizes information supplied by 17 of our participants on the estimated dollar finance charge payable by the purchaser for financing a $300 unpaid balance on a new refrigerator repayable over a period of two years since 1953. The range of finance charges reported remains unchanged at $51 at the low end. At the high end, it rises from $72 (in 1953-1955) to $83 (1956-1957), and then settles back to $72 in 1958-1960, and $73 at the end of 1961. The median rises gradually from $54.50 at the end of 1953 to $65.60 at the end of 1956, and has remained unchanged at $65 in the last four years. Modal values in the early years of this period are neither distinct nor meaningful, but have tended to cluster around $65 in the last few years. Once again, a pattern of considerable rate competition emerges from the array of figures presented in Table 4.2. It should also be noted that in Tables 4.1 and 4.2, the ranking of the companies is purely positional, based on the lowest to highest finance charge reported in 1961. Thus, for

example, company No. 4 on Table 4.1 and company No. 4 on Table 4.2 do not refer to the same company.

80. Data submitted by several members of the FCSFC on the finance charge relating to the instalment financing of industrial machinery and equipment show that the typical rate on a transaction with an unpaid balance of $10,000, will vary from 6.0, 6.6 or 7.2 percent add-on per annum or .5, .55 or .6 percent per month. The application of the finance charge as a monthly factor is common to facilitate the computation of the finance charge for customers who use skip payments and follow a seasonal pattern of repayment. The size and longer term of transactions usually involved in this type of financing, as well as the sophisticated type of competent business men who are the purchasers, make the finance charge sensitive to changing money costs.

81. The present rates prevailing in the industry range from a 6 percent add-on charge for 12 months ($6 per $100 for 12 months on the basis of equal monthly amortization), to a 7.2 percent add-on charge, with most of the volume at 6 percent add-on. Over the last ten years there has been little variation beyond this minimum and maximum, but during periods of higher cost money, relatively more paper has been purchased at the maximum level of the above range. A rate higher than 6 percent add-on will normally apply on transactions with very small balances.

82. The third price to be considered is the one at which the sales finance company offers to

purchase instalment paper from the dealer. While the previous discussion has been from the viewpoint of the time price paid by the purchaser, the following remarks relate to the price arising in the transaction between the dealer and his sales finance company, if the dealer elects to sell his instalment paper.

83. A dealer who sells an article on time includes in the total price of the transaction an amount to compensate for collecting the balance due by instalments instead of cash. The amount of this "finance charge" is agreed upon between the buyer and the seller and it is incorporated into the contract of sale as an integral part of the price of the article. The contract is the dealer's property, to do with as he determines for himself. He may keep it or he may sell it. If he decides to sell it to a sales finance company (or any other financial institution), the terms of the sale of the contract are subject to negotiation and agreement between the parties, which are part of an overall relationship embracing a package of services between the dealer and the sales finance company. Taking a contract where there is an unpaid cash balance of $1,000 and a finance charge of $100 as an example, the dealer now owns a contract on which the purchaser has agreed to pay $1,100. If the dealer decides to sell this contract, he will do so at the best price he can obtain. And he goes into a highly competitive market to look for the best price and terms. The parties in this transaction must first agree on a price. In the normal relationship between sales finance companies

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and dealers, there will not be a separate negotiation for each particular contract, as the parties will have previously agreed upon a formula for establishing the price of the contract. Let us assume that the agreed price is $1,010. The sales finance company may simply pay the dealer the $1,010 and thus end the transaction. More generally, however, because of his outstanding direct and contingent liabilities, the dealer will receive only part of this amount, e.g. $1,000, at the time of the sale of the contract. Payment of the remaining $10 owed to him as part of the price of the paper will be deferred, and the amount set aside, or "reserved" in an account set up to the dealer's credit. This credit account, representing sums withheld from the proceeds of individual contracts has come to be called the reserve account, or the "dealer reserve". It is clear that this dealer reserve is merely a part of the purchase price of the paper, which except for the deferment arrangement, he would have received in cash at the time he sold the paper.

84. Sales finance companies provide dealers with charts from which the dealer can determine the suggested purchaser charge for a great variety of unpaid balances and terms, without making a separate calculation for each transaction. This permits the dealer to calculate readily, under his agreement with the finance company, what the company's purchase price for the contract will be, and what his margin or reserve on the sale of the contract will be. This knowledge is important to him, as it is a factor in the

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3d. Sales finance companies provide dealers with charts from which the dealer can determine the suggested [illegible] charge for a great variety of unpaid balances and terms, without making a separate calculation for each transaction. This permits the dealer to calculate readily, under his agreement with the finance company, what the company's purchase price for the contract will be, and what his margin or reserve on the sale of the contract will be. This knowledge is important to him, as it is a factor in the

negotiating of a time sale, added to those applicable to a sale for cash, that is the margins on the good being sold, and on any accessories, and the value of a used good which is offered as part of the purchase price. The dealer needs a certain margin in total, and he negotiates his sale to achieve this objective by foregoing part of the total margin nominally available to him without necessarily identifying how much he gives up on each of the several parts of the total time price to the purchaser. In fact, the amount of margin he gives up will probably be considered as a discount from the list price of the good being sold, or will result in a higher allowance for a used good accepted as part payment.

85. Data supplied by some of the members of the FCSFC suggest that typically dealer reserves average between 10 and 15 percent of the gross finance charges collected in automobile financing.

86. Finance Charge Disclosure

The sales finance industry believes in the full disclosure of the cost of credit to the purchaser in its most meaningful manner, and it has followed such full disclosure practices for many years. The FCSFC would like to express its views on the matter of finance charge disclosure proposals which have received a considerable amount of public attention in recent years as a result of legislation passed some years ago in one province (Alberta), recently enacted in a second province (Manitoba), and introduced on three separate occasions in the Senate of Canada. It would be useful

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to distinguish at the outset what each of these laws, or proposed laws, seeks to accomplish with respect to the information to be supplied to the purchaser in a sales finance transaction. The Alberta law, the first of its kind to be enacted in Canada, requires either dollars and cents or rate of interest disclosure to the purchaser. The implications and requirements of the law recently passed by Manitoba are not clear at this point; while the latest version of the Senate bill would have made a "simple" interest rate method of disclosure mandatory. Advocates of the interest rate method of disclosure generally believe that such information will prove most valuable to consumer in his attempt to shop among and compare different sources of credit.

87. From the viewpoint of the sales finance business, the following observations and conclusions regarding the finance charge disclosure issue can be made:

(1) It has been a long-standing practice in the contracts supplied by the sales finance industry to the dealer to show the difference between the cash and the time sale price to the purchaser on the conditional sale agreement. The manner in which this is done can be seen from samples of the conditional agreements provided by our members to their dealers, attached in Appendix I. It is the view of the FCSFC that this method of

disclosure is by far the most useful information that can be provided to the purchaser, since at the point of sale he is informed of the exact cost involved in his decision to finance his purchase on an instalment basis. In addition, conditional sale contracts usually specify additional charges applicable to the instalment sale transaction, or arising in connection with it. Thus, in provinces where registration costs are levied on conditional sale contracts this amount is shown, and in transactions where insurance coverage is included this is also shown.

(2) While considerable publicity has been given to the disclosure legislation introduced in the Senate of the United States, and because the proposals here in Canada strongly parallel the measures advocated in the United States, we would like to point out that the United States Federal Trade Commission, after a lengthy series of hearings, established a set of basic rules for full disclosure of finance charges on the instalment sale of automobiles on February 6, 1951. These rules require that the following information be provided to the purchaser in the conditional sale agreement:

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(a) The delivered price of the motor vehicle

(b) The amounts to be credited as down payment and trade-in (if any)

(c) The time balance owed, the amount of each instalment payment, and the number of payments

(d) The cost and coverage of insurance, if a specific premium is charged

(e) The finance charge

(f) Any other charges paid or included in the time balance.

In subsequent years, many of the states enacted laws incorporating the disclosure principles embodied in the Federal Trade Commission rules, and by 1961, thirty-two states had statutes on their books requiring disclosure of the dollar finance charge on automobiles. In thirty-one of these states, the law is also applicable to instalment paper created through the purchase of other consumer durable goods. (Adapted from Robert W. Johnson, "Methods of Stating Consumer Finance Charges", <u>Studies in Consumer Credit Number 2</u>, Graduate School of Business, Columbia University, 1961, pp. 41-42.)

(3) The FCSFC bases its views that dollars-and-cents disclosure is the most appropriate method of disclosure for the

purchaser <u>in a sales finance transaction</u> on the following reasons:

(a) The sales finance charge incorporates at least three major cost elements from the point of view of the sales finance company:

(i) Pure interest for the use of borrowed funds, i.e. a payment for forbearance,

(ii) Payment for the service costs arising from granting the credit, collecting monthly payments, and closing the account, and

(iii) Payment for the risk the sales finance company assumes, and the inevitable losses it must shoulder.

(b) At the point of sale the purchaser of a durable good to be financed on an instalment basis is provided a package of services, with no exchange of money as far as the financed portion of the transaction is concerned. The service package may include purchaser life insurance, which is provided by many sales finance companies automatically at no separate cost, and also automobile insurance, which can become part of the charges listed on the conditional sale agreement. If the nature of the transaction were such that it

constituted a large, single-repayment loan of money, where the bulk of the interest payment is made for forbearance (as is the case when sales finance companies borrow funds on a demand basis from chartered banks, or on a short- and long-term basis from investors in their notes) there is little doubt that the price for such a transaction should be stated in a percentage rate of interest. But if the finance charge in a sales finance transaction is viewed as a service charge in which pure interest is only one of the constituent parts -- for a discussion of interest and other costs in the operation of sales finance companies, see Chapter VI --), then the argument for expressing this charge as an annual interest rate is unconvincing. First of all, a statement of this type would convey the false idea that the entire finance charge is for interest, and secondly, the methods would yield some bizarre results, particularly if they are applied on contracts arising in the financing of very small balances.

(c) While we advocate that the purchaser should be able to compare costs of various avenues of credit open to him, we believe that the soundest and simplest basis of comparison open to him is dollars-and-cents disclosure. Thus, if a dealer informs the purchaser that it would cost X dollars to finance an unpaid cash balance of Y dollars over a period of Z months, the purchaser can then readily compare this with the cost of obtaining funds from a chartered bank, credit union or any other source of credit under the same terms and conditions. A percentage rate of comparison, however, will not be helpful, since chartered banks will express their personal loan rate in one manner (which differs among banks), credit unions in still another, while a special set of rules for interest rate computation would have to be devised for the sales finance field. The same is true for budget and revolving credit plans used by department stores.

(d) This last point raises some "mechanical" difficulties. From a purely theoretical viewpoint, it

will be difficult to find an expression for the "simple annual rate of interest" in a sales finance transaction, and one major difficulty would arise when repayments are not made on an equal monthly basis. But, assuming that mechanical shortcomings of the interest rate disclosure proposal are eliminated by defining the manner of computation, the whole procedure would impose a considerable burden on the distributor or dealer who would be required to conform with the provisions of any such law. As such, it would complicate the operations of thousands of dealers across the country, and probably increase the real cost of credit to the consumer.

(e) Finally, we submit that the consumer credit industry is made up of a great many segments each of which has developed independently in order to satisfy a different consumer need. To legislate any one segment of this industry without due regard to, and without any attempt to legislate or control all other facets of the industry, would do no more than

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create sterile legislation. To attempt to legislate all segments of this industry under one statute which requires each segment to conform to a prescribed uniform method of calculation in disclosing their charges, without due regard to the consumer need which each now services, and their present methods of disclosure of charge which may well be the best possible method of disclosure to the segment of the public which they are now serving, would be unwise and impractical.

(f) As an illustration, Table 4.3 shows a type of form that would be required to interpret the cost of borrowing or buying on time into terms of equivalent simple interest per annum, providing for all forms of transactions, including provision for those where the borrower owns some of the funds that are being advanced to him.

88. Wholesale Finance Charges

The mechanism of wholesale financing has already been described in Chapter III, and the present section rounds out this discussion with a summary of typical wholesale finance charges reported by the ten largest companies participating in the FCSFC survey.

89. Generally speaking, the wholesale rate charged by a sales finance company to a dealer consists of two parts: (1) interest charged on the total wholesale outstandings of the particular dealer, and (2) an original, flat service charge, levied either as a percentage on the value of the wholesale transaction, or a flat per unit dollar charge. In either case, the flat charge is usually levied for the first 90 days of the financing (or any part thereof), with provision for a renewal service charge. Another variant of the flat service charge which has become popular in recent years is a flat cents-per-day-per-unit charge.

90. Table 4.4 summarizes the information participating companies have provided regarding the structure of their wholesale rates since 1953. The first part of Table 4.4 shows prevailing year-end interest rates on wholesale financing, while the second part of the Table summarizes the service charges. An increasing degree of uniformity among companies is found in the interest rate charged on the amount of paper outstanding, with seven out of nine companies reporting such information for the end of 1961, showing a rate of 6 percent. Service charges are somewhat more difficult to compare because of varying practices among companies. In spite of this, half of the companies were levying a service charge of 12 cents per day per vehicle at the end of 1961.

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financing a $2,000 vehicle for the first 90 days at rates prevailing at year-end since 1953. The wholesale finance charges show sizeable fluctuations, related to the movement in money costs to the sales finance companies, and the degree of responsiveness of such charges to changing money costs will be discussed in Chapter VII. For present purposes it should be noted that there is a relatively wide range of wholesale charges (expressed in terms of cents-per-day-per-unit), but a tendency has appeared in recent years for these to cluster around certain values. Thus, at the end of 1961, the wholesale charges quoted by the largest ten companies could be translated into daily per unit charges of 45¢ for five of the companies, and 44¢ for an additional two companies.

# CHAPTER V

## COMPETITIVE ASPECTS: INTRA INDUSTRY COMPETITION AND COMPETITION OF THE SALES FINANCE INDUSTRY WITH OTHER FINANCIAL INSTITUTIONS

### 92. Factors Affecting Intra Industry Competition

During recent years, competition within the sales finance industry in Canada has intensified. This has been brought about partly as the result of expansion by other grantors of consumer credit, which has reduced the share of total instalment financing obtained by the sales finance companies. The nature of the competition between individual sales finance companies is a complex subject. Over the years, the sales finance companies have constantly broadened the range of services made available to the dealer or his customers, in order to remain competitive. Sales finance companies are called on to provide to most dealers of durable goods an integrated financing service which involves many factors. The dealer, in turn, weighs the relative importance of each of the factors as they will affect his finances, his selling ability and his purchasing power. To be competitive, a sales finance company depends on its own skilful and efficient management to provide the most appropriate combination of services to meet particular dealers' needs, competitive rates to customers, and a reasonable compensation for its services. A desirable dealer account will be contacted by several sales finance companies

during the course of a month, each anxious to prove its ability to provide better service. Since most dealers sell all or substantially all of their instalment paper to a single sales finance company, competition for a dealer's patronage is particularly active from the companies who are not established with the dealer.

93. The principal features of the sales finance companies' arrangements with the dealer which may be termed competitive are:

A. Wholesale Financing
B. Capital Loans
C. Dealer Liability
D. Credit Investigation Service
E. Reserve Arrangements
F. Collection Service
G. Sales and Management Services

Each of these competitive aspects is discussed in detail below.

94. A. Wholesale Financing

The financing of wholesale purchases by dealers from manufacturers or wholesalers is called wholesale financing, or floor planning. It has a major function in the integrated financing service provided by sales finance companies and is the first part of clear-track financing from the end of the production line at the factory down to and including the financing of the time payment sales made by retail merchants. The average dealer who purchases durable consumer goods

at wholesale and sells them at retail is usually in no position to finance, out of his capital, the flow of goods which passes through his establishment. It is at this point that the sales finance companies step in and extend wholesale credit for the prupose of maintaining an orderly flow of merchandise. This process has already been described in detail in Chapter III.

The wholesale financing charge and the credit line offered are generally not major factors in influencing a dealer to do business with one sales finance company instead of another, but they are prerequisites for the dealer-sales finance company relationship. Wholesale financing services and charges have already been shown to be closely competitive, as the result of competition among the companies, and this feature in a company's service is not likely to play an important role in a dealer's decision to do business with one sales finance company or another.

95. B. Capital Loans

A sales finance company that is providing a dealer with his wholesale and retail financing may be requested by the dealer for additional assistance in the form of capital loans for the purpose of improving the dealer's facilities, constructing a new building, enlarging or extensively modernizing the building on the premises he now owns, buying a dealership or providing working capital.

Since each capital loan is designed for the specific requirements of a dealer, there is no standard pattern. Capital loans may be evidenced by a simple

promissory note, or may be secured by the pledging of all assets of the business, or of specified assets, such as parts and equipment, or real estate. Terms of loans may range from one year to several years, based on the size and purpose of the loan. As with wholesale financing, capital loans are generally made at very low rates and are made only if they will lead to a greater volume of good retail business from the dealer for the sales finance company. Because of more extensive knowledge of the dealer's character and his business, the sales finance company is often in a position to make such capital loans, while other financing sources could not do the same. Historically, this capital loan service has been of great importance to the function of many key dealerships throughout Canada.

96. C. Dealer Liability

The three main arrangements under which sales finance companies purchase consumer instalment contracts are non-recourse, full recourse and repurchase. Under each of these arrangements, modifications or concessions granted by the sales finance companies become competitive factors in vying for a dealer's business.

(1) Under a non-recourse agreement, the sales finance company assumes essentially all risks in purchasing paper from the dealer. Except for a standard provision that the terms of the contract and the information inducing the sales

finance company to purchase it are bona fide, the dealer has no liability if the buyer should default in his obligation. While the advantages of this arrangement from a dealer point of view are apparent, there are many disadvantages. For example, the sales finance company, to maintain a sound portfolio of receivables, must be more selective if it has no assurance of any assistance in collecting the account or disposing of the goods in the event of repossession. This would lead to acceptance by the dealer of varying degrees of liability on contracts which his sales finance company felt it could not purchase without recourse. If a sales finance company were to agree to buy all contracts the dealer created on a without recourse basis, it is obvious that the dealer would have to compensate the sales finance company for the greater risk it was assuming, presumably by accepting a lower price than he could obtain for the contracts on a with recourse basis. The fact remains, however, that a non-recourse arrangement is a point of competition within the sales finance industry, but only a very limited percentage of total contracts purchased are on this basis.

(2) Under a full recourse agreement, the dealer assumes the bulk of the risks. If the dealer is financially sound, the sales finance company may be willing to handle his paper at a much lower rate, since its risk is nominal. If it fails to collect, it assigns the contract back to the dealer, who pays the full amount outstanding, less unearned finance charges. The more substantial the dealer, the more competition there is between sales finance companies to handle his paper on this attractive and relatively risk-free method. Full recourse is comparatively limited in its use.

(3) The most common basis for buying instalment contracts from dealers, particularly in the automotive and appliance industry, is on a repurchase agreement basis, or some form of limited liability. Under this plan, liability is in a sense split between the financial institution and the dealer in the case of consumer durable goods which can be resold if repossessed. Under a typical repurchase agreement, if the sales finance company is unsuccessful in collecting, it bears the cost of finding, repossessing, and bringing the goods back to the dealer's place of business. In the case of cars, the dealer is then

responsible for repurchasing the contract. The repurchase agreement ordinarily provides conditions which must be met and may extend protection to the dealer against any uninsured damage to the car. In most cases, the dealer is protected if the goods cannot be repossessed, either because they cannot be located, or because they have been converted or confiscated.

Under a repurchase agreement, a sales finance company is willing to purchase contracts on sales of used goods, which it would not be willing to purchase under a non-recourse arrangement. This is particularly important to a dealer in automobiles because of the high proportion of used vehicles which he takes as trade-ins. The dealer must be able to finance a substantial proportion of the sales of these used vehicles if he is to sell them at retail. The dealer with servicing and sales facilities available is much less likely to suffer losses on disposing of repossessions than is his sales finance company, and he would be able to sell these vehicles at retail while the finance company would probably be obliged to dispose of them at wholesale prices. Since, in general,

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the risk of repossession and of loss increases as the age of a vehicle increases, the dealer who wishes to retail his used cars will probably find it necessary to operate under a repurchase agreement and will find it to his financial advantage so to do. To many dealers this presents an opportunity for considerably greater sales volume.

Sales finance companies compete with each other through various modifications of the repurchase agreement. If a company is too severe in assessing collision damage on repossessions, the dealer may be attracted to another company where he feels he will obtain more liberal treatment. There are many variations under a repurchase agreement permitting one company to offer a competitive incentive on one point by being conservative on another.

Unless a very large majority of contracts pay out satisfactorily under the method used by the sales finance company to purchase the instalment contracts from the dealer, both the dealer and sales finance company suffer. Thus, the next important competitive factor from a dealer point of view is the credit service and

investigation provided by the sales finance company.

97. D. Credit Investigation Service

Sales finance companies compete with each other on the basis of the type of credit investigation service they provide to the dealer. Prompt credit investigation and sound judgment in approving the application of consumers wishing to buy from a dealer on an instalment plan enables him to complete more sales. The sales finance company assumes the function of credit investigation and evaluation as a service to its dealers, and performs this function with the aid of specialized personnel and facilities.

The dealer wants a prompt credit service to protect sales against competition; slow investigation will inevitably tend to affect adversely the dealer's sales volume. The prospective instalment purchaser is unwilling to wait any great length of time to find out whether the dealer can sell him. Indeed, the competition between sales finance companies has led the Canadian consumer to expect a prompt credit decision wherever he buys.

To be competitive, sales finance companies must make use of the most rapid means of communication, such as telephones for local enquiries and telegrams for long distance investigations. It must develop specialized procedures to get information and give its credit decisions to dealers without delay. Direct phone lines may be established between large volume dealers and their finance company as a means of faster

service to the consumer.

Speed and completeness of credit investigations are necessary to make possible both prompt and sound decisions. And in both the speed and soundness of these decisions lie bases for competition within the sales finance industry.

The companies compete in their ability to strike a good balance between ultraconservatism and unsound credit practices. An ultraconservative credit policy would restrict the dealer's sales and reduce the dealer's profit. Unsound credit approvals will cause expense and loss to the dealer. What hurts the dealer will be to the disadvantage of the institution which finances him.

Competition within the sales finance industry to achieve an optimum balance in making credit decisions benefits the Canadian consumer. No sales finance company can afford intentionally to extend credit to customers who do not have the inclination to meet the commitment of the instalment contract or to whom the commitment would prove to be an impossible financial burden. At the same time, no sales finance company can afford to reject too many creditworthy buyers who are accepted by others. In competing for good retail contracts and rejecting bad ones, sales finance companies have developed systems for evaluating credit which increase the likelihood of the truly creditworthy customer being recognized as such.

98. E. Reserve Arrangements

A dealer sells his time payment contracts

to his finance company at an agreed price. In the case of consumer goods, especially automobiles, this price usually exceeds the unpaid cash balance on the contract, and the excess is usually held by the finance company at the dealer's credit, as has been explained in Chapter IV, above. It is this portion of the purchase price of the paper which is called dealer reserve.

The price that is paid will vary from contract to contract depending on the type of good being sold, whether the good is new or used, and on the length of the contract term. The price may also vary from dealer to dealer, as the finance company considers its price for paper as part of a total financial service, on which it expects to realize a profit. It must therefore consider such things as the amount of money it may be advancing for wholesale and capital loans, the quality of the retail paper (and hence the collection expense) the extent of the dealer's liability on the contract after he has sold it, the financial strength behind the dealer's endorsement, and the extent of the competition for the dealer's paper.

It was explained in Chapter IV above,-that a dealer considers the reserve on a transaction as part of his total margin on the sale, and that he may vary it in the negotiating of the sale. It is convenient for him therefore to have the purchase price his finance company will pay expressed in terms of his margin. Thus it is customary for a finance company to tell a dealer how much dealer reserve he will realize, if he uses a particular time price to the retail customer. Stripped

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of its confusing verbiage, reserve arrangements are simply a typical market place bid for something the dealer wants to sell and the finance company wants to buy. As such, it is a most competitive feature within the industry.

The finance company provides a dealer with charts, which it is normal for the dealer to use on time sales. It thus sets the terms and conditions under which the dealer establishes the time price, because the price it will pay, and the dealer's reserve are predicated thereon. However, the dealer is free to vary the margin, if the negotiations on a particular sale make it advisable, by charging a lower time price.

If the finance company defers payment of the dealer reserve portion of its price for paper, it carries these amounts at the dealer's credit, in an account called Dealers' Credit Balances. Arrangements for payment of the amounts at credit of this account may vary from dealer to dealer, but in general the amounts accumulate for a pre-determined time period, or until the balance reaches a certain agreed percentage of outstanding retail accounts, or both. The most common arrangement is settlement monthly, quarterly or semi-annually of the amount at credit in excess of a percentage of outstandings.

In addition to dealer-reserve, some sales finance companies offer a volume bonus, if the dealer submits a certain volume of paper, to encourage him to sell all his paper to a single company.

99. F. Collection Service

A relatively small percentage of instalment buyers may find it difficult at some time during the term of their contract to meet the commitments of the contract. Sales finance companies, through their credit service, tend to discourage an individual from committing himself for more than he can reasonably pay out of his earnings. Therefore, a large number of consumers whose accounts become past due, do so because of emergencies, illness, marital problems and other reasons.

Sales finance companies compete with each other to provide a prompt and efficient collection service but must be mindful that the methods used affect their own future business and also that of the dealer who uses their services. The collection service should have the effect of encouraging the customer to protect his equity in the goods he has purchased, thus protecting the dealer against unnecessary losses.

Collection service constitutes a major cost in the overall operation of sales finance companies. Specialists are required to conduct both the inside and outside functions. Every delinquent account is handled on the basis of making any and all reasonable adjustments that may be possible. Modern sales finance companies like any other business, need the goodwill of the consuming public, and collections are carried out with a sales approach. A dealer judges the sales finance company's service on the number of repossessions he may be requested to purchase. If there is no dealer

liability on the contract, the sales finance company more often than not is unable to realize the balance owing on the contract through the resale of a repossession. For these reasons, the sales finance company attempts to avoid repossession at all costs.

100. G. Sales and Management Services

Sales finance companies also compete in the sales and management services provided to their customers. Among the factors involved in this area of competition are: (1) stability and dependability of financial resources; (2) skill of management and professional manpower; (3) proximity of branches and service facilities; and (4) sales promotion, training and merchandising aids.

101. Structural Factors Affecting Intra-Industry Competition

In addition to the above factors, certain structural characteristics also affect intra-industry competition in the sales finance industry. The first characteristic is unrestricted entry, and the ability of small companies to secure a foothold in the industry without artificial impediments to their entry. The industry provides a package of services for which no one company can have a monopoly, and it is possible to get into business with relatively small amounts of capital, because the highly liquid nature of the earning assets purchased makes credit readily available. Among the members of the FCSFC participating in the survey of data for this Brief, 15 companies have started operations in Canada since 1950, and four of

these are now among the ten largest companies for which detailed data are presented in this Brief.

102. A second structural factor affecting competition within the sales finance industry is the presence of a considerable number of manufacturer-, dealer- and distributor-owned finance companies. These are sometimes called captive companies to indicate a degree of vertical integration between the finance function and antecedent stages of production and/or distribution. Under conditions where the manufacturers controlling these finance companies have a significant share of the total market for their particular brand of products, and their finance subsidiaries succeed in capturing a large share of the instalment financing of their parents' products, the competitive environment under which independent finance companies must operate is appreciably affected.

103. Competition with Other Financial Institutions in the Consumer Credit Market

In order to discuss the nature of competition between sales finance companies and other financial institutions and intermediaries extending credit to the Canadian consumer, a statistical summary emphasizing the diversity of consumer credit sources presently available in Canada and their importance is required. Any such summary is hampered by the fact that there is now not available an absolute total figure for "consumer credit" in Canada. This is due to the

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fact that (1) certain items usually included in the present consumer credit data may not represent outright indebtedness for consumption purposes (e.g. fully secured loans made by chartered banks and life insurance companies), and (2) certain sources of consumer credit are not included in the data presently available (e.g. service credit such as doctors' and dentists' bills; loans between individuals, etc.).

104. Table 5.1 summarizes the statistics generally indicative of the growth in the consumer credit outstanding in Canada in the period 1951-1961. Details are shown for the major financial institutions supplying consumer credit, and their relative importance is measured against a standard of total consumer credit which is subject to the limitations outlined in the previous paragraph. Total consumer credit outstanding increased from $1,416 million at the end of 1951, to $4,630 million ten years later; this represents an increase of $3,214 million in balances outstanding in this ten year period, or an increase of 227 percent.

105. A number of inter-related changes have contributed to the overall increased use of consumer credit. The tendency toward urbanization of society has disrupted informal, unrecorded credit granting by friends, relatives and small retail outlets. Standards of living have increased, and a greater fraction of income has become available for durable goods purchases such as automobiles. Availability of credit makes purchase of such large dollar items more feasible. Consumers have increasingly recognized that proper use

of credit is desirable. And, of course, the competing sources of consumer credit have been alert to devise methods of extending credit services which result in greater utility to the customer.

106. Table 5.1 shows that consumer credit supplied by various financial intermediaries has not increased uniformly in the period under review. Sales finance company outstandings started from an artificially low base of $186 million at the end of 1951, and the amount of consumer retail paper outstanding increased to $780 million at the end of 1957 (with only one interruption appearing at the end of 1954, when outstanding balances were $24 million lower than at the end of 1953); at that time the sales finance company group accounted for 23.7 percent of all consumer credit -- a peak ratio for the period under review. In absolute terms sales finance company outstanding paper has moved in a rather narrow range since the end of 1957. The amount outstanding totalled $760 million at the end of 1961 and its share of all consumer credit has declined steadily, reaching an estimated 16.4 percent at the end of 1961. This ratio is the lowest for any year under review except 1951, when consumer instalment credit controls were in effect.

107. The trend among other grantors of consumer credit and the nature and extent of competition with them and the sales finance industry can be described as follows:-

108. <u>(A) Small Loan Companies</u>

Outstanding balances of small loan

companies (which represent mainly personal loan credit in the form of personal cash instalment loans) have increased sharply in the period under review, rising from a total of $114 million outstanding to $583 million at the end of 1961. In relative terms, credit supplied by the small loan companies accounted for 8.0 percent of all consumer credit outstanding at the end of 1951, and 12.6 percent ten years later.

109. Small loan companies compete successfully with instalment finance companies primarily in cases where they already have special knowledge of their customers' credit worthiness by virtue of past experience with them. With this experience as a guide, they can extend credit profitably to some persons who cannot obtain credit from other financial sources that lack this additional information. The small loan company can also finance sales for some consumers simply because these customers already have established a favourable relationship with the small loan company and prefer to expand this relationship rather than arrange for new financing at some new and perhaps less convenient place. The specialty of the small loan companies is the analysis of the customer's credit-worthiness based on personal contact and credit investigation prior to the extension of credit. Because of their emphasis on personal evaluation of credit, they compete effectively with sales finance companies in financing individual transactions. This same emphasis on the evaluation of the credit of the individual is not compatible with rendering a broad service to a

retail dealer. In general, a small loan company is staffed to evaluate the credit of individuals and to collect accounts. It does not attempt to provide the broad services to the dealer described in the preceding pages. The evaluating of the credit of the dealer described in the preceding pages. The evaluating of the credit of the dealer and the extending of credit to him based on that evaluation are just not part of a small loan company's operation. These companies are, however, becoming increasingly important competitors of the sales finance companies, particularly in financing the sale of used automobiles through the medium of loans to purchasers.

110. (B) Department Stores

The amount of consumer credit outstanding supplied by department stores has risen from $78 million at the end of 1951 to $401 million at the end of 1961, and its ratio of all consumer credit outstanding in Canada has increased from 5.5 percent to 8.7 percent. Department stores are not financial intermediaries, but they compete with sales finance companies through the extension of credit for goods sold on their own premises. In some cases this credit is extended on their own account, while in other instances, captive finance companies are used to perform the credit function.

Because of the operation of the department stores' so-called "all purpose credit plans", the credit statistics presently available can no longer be separated into instalment credit (which is

essentially purchase credit of the type provided by sales finance companies), and charge account credit (which is predominantly single payment credit). The last breakdown for these two types of department store credit is available for the end of 1959 when 80 percent of the total credit outstanding ($250 million out of $314 million) was classified as instalment credit.

111. (C) Other Retail Dealers

The data shown in Table 5.1 are estimates made by the Bank of Canada which exclude charge accounts of motor vehicle dealers whose credit is extended mainly to business rather than consumers. Outstanding balances have increased in absolute terms from $328 million at the end of 1951 to $605 million at the end of 1961; this represented 23.2 percent of all consumer credit outstanding at the end of 1951, but only 13.1 percent ten years later. More than one-half of the credit outstanding on the books of other retail dealers represents charge account balances, a type of credit which is not extended in competition with the sales finance companies.

Large retailers, or retailers who have customers whose credit has been established by continuing contact, are in a position to extend credit directly as an additional service. In these cases the retailers are able to grant credit because of specialized knowledge about their own customers (which reduces inherent risks), and because of their financial strength. However, during the last ten years there has only been a moderate increase in the credit

provided by retailers (other than department stores) in comparison to growth in total consumer credit outstanding. In many cases, retailers financially capable of carrying their own instalment paper, find the specialized services of the sales finance companies a preferable alternative. This also releases capital which the merchant would otherwise have to tie up in receivables, for use in other phases of his business.

112. (D) Chartered Banks - All Other Personal Loans

This category of chartered bank loans has increased from $204 million outstanding at the end of 1951, to $1,030 million outstanding ten years later. The percentage of total consumer credit accounted for by these loans was 14.4 percent and 22.2 percent respectively, with almost the bulk of gains occurring in the period 1959-1961.

Chartered banks normally finance purchases of durable goods by arranging financing directly with the purchaser by means of personal loans. Banks hold a competitive advantage in extending financing directly to particular customers whose credit-worthiness is easily verified. These customers are generally persons who have established credit in the community and who are likely to have had prior good credit dealings with the bank. When the bank can deal directly with such applicants for credit, its risk of loss is reduced and it can extend this particular type of financing at slightly lower rates. The lowest rate afforded the select consumer by chartered banks is 6

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III

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percent simple interest per annum. The rate is generally offered to people who can pledge bankable security, in which case the bank loan is classified as fully secured (by marketable bonds and stocks); this category of loans is included in the "other credit" classification discussed below. Most sales finance companies do not compete directly in supplying financing to this kind of customer. The customer who can get direct bank financing at more favourable rates, usually has frequent contact with the bank and tends to seek out the bank as a source of financing. The type of consumer credit, classified in the "all other personal loans" category is usually offered at rates to the customer that are closely comparable to new car rates offered by sales finance companies. In recent years, the chartered banks have aggressively competed with the various financial intermediaries supplying credit to the Canadian consumer.

113. (E) Credit Unions

Credit Unions became established in Canada around 1900 when credit for the consumer was practically unavailable. Sales finance companies were not then in existence, legitimate loan companies, as we know them today, were not yet in operation, and the chartered banks were not in the consumer credit field. As a result of a definite need for such services, small groups of people banded together on a parochial basis to pool their savings and thus provide a source of loan funds for members for "provident and productive purposes". The basic requirement for membership was

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that each member have some "common bond" with other members of the group.

This original concept of the credit union movement -- to encourage thrift and to extend financial assistance to a member of a group sharing a community of interest -- was a praiseworthy one. In the past 60 years this movement has undergone radical changes in function and organization and has passed through a period of extremely rapid growth.

Indicative of its financial growth, the total of loans outstanding classified as "not secured by mortgages" has increased from $76 million at the end of 1951 to $425 million at the end of 1960 (the 1961 figure is not yet available). Credit union loans represented 5.4 percent of all consumer credit outstanding in 1951 and 9.7 percent in 1960.

In terms of membership, the Federal Department of Agriculture's Report on Credit Unions in Canada, 1960, established the number of credit unions in Canada at 4,667 with a total membership of 2,544,300 persons; this means an average membership of 593, compared with 349 in 1950 and 172 in 1940.

With an average membership of about 600 persons and a "common bond" now so loosely defined as to include common religion, common city or town of residence or common nationality, we suggest that credit unions have in fact become commercial organizations exhibiting many of the characteristics of a branch banking system. The similarity is apparent in the development of 27 Provincial Central Credit Unions formed to

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use effectively the surplus funds available in some credit unions and to provide a source of funds for those unions whose loan demands exceed savings and deposits. In addition, some centrals and individual credit unions borrow from banks for re-lending when their own available funds are insufficient. In 1960 ninety percent of credit unions in Canada were members of Provincial Central Credit Unions.

In view of the fact that credit unions have become commercial in character, this Royal Commission should consider whether it is in the best interests of the Canadian economy that they be exempted from carrying their fair share of the tax burden. We maintain that tax exempt institutions have no place in our economy demanding social welfare to the extent that it does, where the field in which such institutions operate is or can be adequately served by tax paying businesses.

Even after removal of the present tax exemptions, credit unions could still continue to perform the functions for which they were established, because of the following cost advantages:-

(1) Rental costs are usually low and often negligible. Free space is often provided by sponsoring employers, labour unions, churches, lodges, corporations, or other interested groups.

(2) A substantial amount of work is contributed free or at nominal wages by dedicated members. Employees of a sponsoring

corporation often perform credit union work during time paid for by the corporation, and corporations usually incur additional accounting expense for the benefit of their sponsored credit unions.

(3) Advertising costs tend to be very low. The group from which a credit union must derive its members usually knows the advantages of membership and the credit services offered. Such advertising as is necessary can usually be directed specifically to the group by media no more elaborate than posters on bulletin boards.

(4) Costs of screening credit applications tend to be low. The credit union has records of all members as shareholders. Since members are from a common social, religious, residential, or corporate group, a great deal of information useful in evaluating credit risk is common knowledge within the group. Additional information from corporate personnel files is usually much more readily available to sponsored credit unions than to other financial intermediaries.

(5) Collection expenses tend to be lower for a number of reasons. Individuals tend to feel greater personal obligation to the

group of which they are members; apart from this personally-imposed obligation, they are responsive to group pressure, and, in corporate-sponsored credit unions, the sponsor corporation usually encourages both savings and repayments by providing a payroll deduction system.

(6) As a further advantage, credit unions are often the most convenient source of credit to their members considering both place and time.

114. (F) Other Credit

The classification of "other credit" in the last column of Table 5.1 includes secured personal loans and home improvement loans made by chartered banks, life insurance companies' policy loans, oil company credit card balances, and Quebec Savings Banks' loans not secured by mortgages. In absolute terms, credit outstanding in these categories has increased from $430 million at the end of 1951 to $826 million at the end of 1961. As a percentage of all consumer credit, their ratio amounted to 30.4 percent and 17.8 percent at these two dates.

Generally speaking, there is little direct competition between sales finance companies and credit grantors in these classifications. With the exception of home improvement loans, the purposes of loans are generally not known, and it may well be that individual consumers use their personal credit (fully secured by collateral) to pay for purchases of durable

group of which they are members; apart from this personally-imposed obligation, they are responsive to group pressure, and, in corporate-sponsored credit unions, the sponsor corporation usually encourages both savings and repayments by providing a payroll deduction system.

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Generally speaking, there is little direct competition between sales finance companies and credit grantors in these classifications. With the exception of home improvement loans, the purposes of loans are generally not known, and it may well be that individual consumers use their personal credit (fully

goods. This method would put their preferred personal credit rating to work for purchase credit purposes, in an area normally served by instalment credit.

GOVERNMENT COMPETITION

115. (A) Industrial Development Bank

The Canadian sales finance industry has played an important role in financing the equipment and machinery needs of small and medium-sized Canadian businesses for over thirty years. In addition to purchasing conditional sales contracts from sellers, many companies supply capital funds to business by way of capital loans, leasing of equipment and mortgages on real estate.

In the area of business financing, our industry has been meeting growing competition from the Industrial Development Bank. This competition manifests itself in several ways, some of which are more measurable than others. The net effect has been a serious loss of business, which private enterprise would ordinarily obtain, to a government-sponsored, tax exempt agency. The step-up in I.D.B. activity beginning in the second half of 1961 has been particularly pronounced. In the ten month period between July 1961 and April 1962, loan disbursements averaged $5.9 million, as against a monthly average of $2.4 million in the fiscal year 1959 and $2.5 million in the fiscal year 1960. Other data presented in Table 5.2 showing the amount of loans outstanding, the number of customers, etc., all point to the sharp increase that has taken

place in I.D.B. financing activity. I.D.B. competition can be considered under three major headings:

(a) I.D.B. Loans to borrowers who use the proceeds to pay off accounts on sales finance company books.

(b) I.D.B. Loans to borrowers who use all or part of the proceeds to "buy" equipment the sales finance industry normally finances.

(c) Stipulations in I.D.B. Loan agreements which prevent a borrower from acquiring additional capital assets through private financing. This is accompanied, in certain cases, by a policy providing additional I.D.B. funds for such purposes -- a practice similar in some respects to a bank line of credit or a department store revolving credit plan.

These three types of competition will now be discussed in some detail.

(a) <u>I.D.B. Payouts</u>

Evidence now available strongly supports the contention that I.D.B. is aggressively competing for business financing regardless of whether the borrower can obtain accommodation elsewhere. Figures provided by members of the Council point to the fact that in the last two years the sales finance industry has lost several million dollars in business outstanding on its books as a result of payouts made by the I.D.B.

(b) <u>New Business Lost to I.D.B.</u>

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This is much more difficult to measure accurately since direct competition between the I.D.B. and the sales finance companies is involved, but our member companies believe that the amount is substantial and the trend upward.

In the view of the Federated Council, the I.D.B. practice of soliciting business in direct competition with private credit grantors illustrates convincingly the distortions which can arise when a government agency engages in active competition with private enterprise. According to any logical interpretation of the Act setting up I.D.B., its scope of operations would be largely determined by the extent to which private credit institutions could not meet the demand for business credit on reasonable terms. Under present conditions the situation is reversed with privately owned institutions having to depend on the extent to which a government institution chooses to compete. If recent experience is any guide, I.D.B. will not only finance new installations, but pay out the balance on the existing ones as well.

(c) Effect of I.D.B. Restrictions on Future Financing

It has been our industry's experience that once a client obtains an I.D.B. "Loan", it is extremely difficult to obtain new business from him, even though he may have been a regular customer in the past.

We recognize that I.D.B. must protect its investment, but submit that the borrower should be free to finance through private enterprise channels if I.D.B.'s permission to acquire additional capital assets

is obtained. If such restrictions are coupled with a policy of providing additional credit for approved purchases the borrower becomes permanently attached to I.D.B. This again we believe to be contrary to the expressed purpose of the function of I.D.B.

The Basis of I.D.B. Competition

A study of the individual reports prepared for our member companies by their branch representatives establishes beyond any doubt that I.D.B.'s appeal to business is based on lower rates. Longer terms for repayment are a factor, but this appears to be quite secondary. The question of availability of credit elsewhere does not seem to enter the picture at all.

Under the existing law, I.D.B. will make loans where alternative financing would not be available "on reasonable terms and conditions". We submit that this phrase is being so interpreted by I.D.B. as to be largely meaningless. Given the special situation of I.D.B., the rates charged for accommodation by private enterprise are bound to be higher, and if the rates currently charged by I.D.B. are to be the criterion of "reasonableness", then no sales finance company will be able to compete. The privileged position of I.D.B. in relation to rates is created as follows:

1. It appears that the I.D.B. can obtain funds at lower than market rates available to sales finance companies. The sales finance industry pays the going market rate for the mixture of

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1. It appears that the I.D.B. can obtain funds at lower than market rates available to sales finance companies. The sales finance industry pays the going market rate for the mixture of

funds it requires for its operation.

2. I.D.B. legal, promotional or commission costs in obtaining its funds are less or non-existent.

3. I.D.B. pays no income taxes.

4. A return on shareholders' equity (capital and retained earnings) of approximately 2% is earned by I.D.B. (after assumed income taxes). If the sales finance industry showed a similar return it would cease to obtain the necessary funds from the money market and would go out of business.

With these advantages it is not surprising that I.D.B. can substantially undercut private financing rates and still show a profit on its operations.

I.D.B. Background

The Industrial Development Bank was established in 1944 to provide medium term loans to small and medium-sized Canadian industrial enterprises. The basic intention of the legislation was to provide credit which could not be obtained through the usual private enterprise channels. This basic condition for a loan is set out in Section 15, Paragraph 1, Sub-Paragraph (b) which reads, "Credit or other financial resources would not otherwise be available on reasonable terms and conditions". Also the Preamble to the Industrial Development Bank Act reads:

"Whereas it is desirable to establish an industrial development bank to promote the

economic welfare of Canada by increasing the effectiveness of monetary action through ensuring the availability of credit to industrial enterprises which may reasonably be expected to prove successful if a high level of national income and employment is maintained, by supplementing the activities of other lenders and by providing capital assistance to industry with particular consideration to the financing problems of small enterprises..."

The phrase "by supplementing the activities of other lenders" would indicate the Bank was established to supplement rather than compete with existing financial institutions. It is our belief that recent activities of I.D.B. go far beyond the expressed intentions for its functions, that it is engaged in direct competition with this industry, and that loans are being made on a broad scale regardless of whether or not credit is otherwise available on reasonable terms and conditions.

We further contend that the serious inroads being made by I.D.B. on financing which our industry is well-equipped to provide, are the result of a deliberate and aggressive expansion programme accompanied by advertising and promotion usually associated with privately sponsored and financed organizations seeking to enlarge their share of the market in a highly competitive field. This has occurred in spite of the fact that I.D.B. was established in order to supplement, rather than compete with or displace,

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existing private financing institutions.

I.D.B. Advertising

I.D.B. is currently engaged in a full-scale advertising campaign which has all the attributes of an aggressive "business-getting" drive for expansion. We have also been advised that I.D.B. is conducting a direct-mail campaign with certain professional people and that its representatives are attending business meetings and conventions at which they make speeches and show films. If all of this is to provide information on the function of I.D.B., we would have no objection, but we submit they leave the impression that its facilities are available for use on a much wider scale than was originally intended. We would also like to observe that we have no objection to this "hard sell" activity, provided it is in keeping with the purpose for which I.D.B. was established.

I.D.B. Branch Expansion

There are now 16 I.D.B. branches in operation. New staff is being added in a general atmosphere of buoyancy and growth and this is accompanied by a human and understandable desire on the part of I.D.B. employees to see their operations grow. In discussions with local I.D.B. managers, our representatives have been impressed by their enthusiasm.

In our opinion, present I.D.B. facilities are already more than adequate to meet the needs of those who cannot be served by private enterprise.

Summary and Recommendations with regard to I.D.B.

We are well aware that the developments

existing private financing institutions.

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In our opinion, present I.D.B. facilities are already more than adequate to meet the needs of those who cannot be served by private enterprise.

described are the direct result of government policies designed to bolster the economy and reduce unemployment. We also appreciate that any net investment in capital goods resulting from I.D.B. financing which could not be financed through other channels is bound to have a stimulating effect on the economy. But to the extent that I.D.B. financing merely replaces financing available elsewhere, there is little advantage to the economy, even though the individual borrower may benefit through lowered costs vis-a-vis his competitors.

We question the presumption behind these developments, namely, that private enterprise financing is inadequate for the needs of the economy. Periodic bulletins from I.D.B. appearing in the press emphasize the growth in number and volume of its loans to industry. In our view, these reports present a misleading picture of the contribution made by I.D.B. as no reference is made to the loans which private enterprise would willingly have retained on its books, or have been prepared to undertake. Consequently, the figures published overstate the stimulus provided by I.D.B.

We therefore make the following recommendations which, if adopted, would return I.D.B. to the role it was originally intended to fill without any adverse effects on the economy at large:

(1) That the scope of the Bank be restored to its original intention by either -

(a) Amending the Act by deleting the words "on reasonable terms and conditions"

from Section 15, Paragraph 1, subparagraph (b); or

(b) amending the Act to permit regulations by the Governor-in-Council and, pursuant to this enabling legislation, the passing of a regulation defining the words "on reasonable terms and conditions", to mean terms and conditions available on the commercial market to persons engaged in a similar business to that of the proposed borrower; or

(c) the enactment of a by-law by the Board of Directors of the Bank containing the definition set out in (b) above.

(2) That the present policy of the Bank of arbitrary payouts on existing non-bank loans be discontinued and loans which the I.D.B. may properly make, be made by the Bank on terms which provide for existing loans to remain in effect.

(3) That the rate at which I.D.B. lending takes place imposes a reasonable burden upon the borrower and that the interest paid be treated as a non-deductible expense for tax purposes. This will remove the effect of the subsidy from the public gradually as the profitability of the enterprise increases, and the borrower will be

attracted toward normal credit sources when his financial position makes him eligible for normal business credit.

(4) A new advance must not be granted unless the Bank has satisfied itself that a like loan otherwise be obtained by the proposed borrower on the commercial market on "reasonable terms and conditions", as defined.

(5) That where the Bank makes a loan and capital purchases are made by the borrower during the term of the loan, any such purchases made by the borrower should be financed through existing private enterprise institutions.

(6) That the opening of a Bank branch in any given area should be conditional upon the Board of Directors of the Bank being satisfied that requests for loans from that area cannot be serviced by private enterprise and warrant the opening of a branch.

116. (B) Other Government Guaranteed Activities

The Federated Council is justifiably concerned about any government sponsored credit which cuts across the path of free enterprise. It therefore has a special interest in the Government's guarantees to Chartered Banks in fields where sales financing is interested, namely, Farm Improvement Loans, Home Improvement Loans and Loans to Small Business.

The Commission will be familiar with the general pattern and experience of such guaranteed loans. The record to date suggests that losses are so small as to remove any need for a special government subsidy to the lending agency. We feel that the guarantee served a useful purpose in acquainting the banks with these types of borrowers, but any uncertainty as to their credit-worthiness should have ceased to exist some time ago. To date, experience with these guarantees has been as follows:-

| | |
|---|---|
| Farm Improvement Loans:- | 1945 to 1960 - Losses of 1/10 of 1 percent on total loans of $912,000,000. |
| Home Improvement Loans:- | 1955 to 1960 - Losses of $280,000 on total loans of $200,000,000, or .14% |
| Loans to Small Business:- | Started in 1960. Loss ratios not yet representative. |

The Federated Council submits that these guarantees should be withdrawn because:

(1) Regardless of the smallness of the losses, they represent a subsidy to our competition paid in effect from the public purse.

(2) The banks have had sufficient experience with these types of lending to remove any possible justification for a government guarantee, particularly as far as Farm

Improvement Loans and Home Improvement Loans are concerned.

OTHER SOURCES OF BUSINESS CREDIT

117. (A) Captive Paper Held Abroad

In financing of business machinery and equipment, the sales finance industry in Canada also faces competition from U.S. sellers of machinery and equipment, and U.S.-based sales finance companies. There are many U.S. manufacturers with finance company subsidiaries or affiliates operating in the U.S., and carrying instalment paper on goods sold in Canada. Sometimes a plan to provide this financing is set up with a U.S. sales finance company. In either case, contracts of Canadian purchasers are payable in U.S. dollars, and many millions of dollars in such receivables are placed annually on the books of such U.S.-based credit grantors, resulting in effect in an import of credit. This type of activity competes with domestic sales finance companies operating in the U.S., it would be important to determine the impact of such arrangements on the Canadian financial system.

118. (B) Sellers

Some large distributors of business and industrial equipment elect to carry their own instalment paper, rather than discount it with a sales finance company. This parallels the situation described in the consumer instalment credit field where department stores and other retail dealers provide a significant amount of credit by carrying their own

paper, or setting up a special finance affiliate to handle their instalment credit activities. While the quantitative importance of credit extended in this manner in the consumer field is documented by official statistics, there are no data available to show the extent to which this is also a factor in the instalment financing of business and industrial equipment.

# CHAPTER VI

## FINANCIAL STRUCTURE AND ANALYSIS*

119. The original equity capital of the sales finance industry was provided by small groups of private investors. As the companies grew, original equity funds were augmented by retained earnings, and, in a few cases, by public offerings of preferred or common shares. In the period up to 1939, the sales finance companies relied largely on the chartered banks for additional funds. There were very few public offerings of debt securities and even the equity tended to be closely held. (As far as can be ascertained, Industrial Acceptance Corporation Limited was the only sales finance company to make public offerings of debt securities in the pre-war period. These were limited to $1 million principal amount of convertible debentures offered in 1930 and $2 million principal amount of convertible debentures offered in 1937. I.A.C. also issued $1,500,000 in preferred shares in 1936; $500,000 was subscribed privately and the balance publicly. The Company's Class "A" (common) shares were not listed on a recognized stock exchange until after a secondary offering of these shares in 1936. Traders Finance Corporation Limited raised all of its capital requirements privately until 1941.)

* Unless otherwise noted, all figures used in this chapter are based on data relating to sales financing operations submitted by the ten largest companies.

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* Unless otherwise noted, all figures used in this chapter are based on data relating to sales financing operations submitted by the ten largest companies.

During this period, the volume of business was relatively small, with only a few companies in the industry, and the chartered banks supplied most of the outside funds required.

120. During World War II the sales finance companies experienced a reduction in business volume and had little need for outside funds. As a result, most of the companies were able to reduce their debt considerably. Public offerings were limited to refunding issues made attractive by the prevailing low level of interest rates. (Traders Finance Corporation Limited issued $700,000 principal amount of debentures in 1941 and $2,500,000 of preferred shares in 1945, the proceeds being used to retire outstanding preference shares. Industrial Acceptance carried out no public financing during the war years.)

121. The post-war period was characterized by a rapid expansion of the industry, reflecting built up consumer demand for automobiles and other durable goods, general prosperity, and greater public acceptance of the concept of instalment buying. To meet this demand for consumer credit, the sales finance companies diversified their source of funds. In addition to relying on their own equity and the traditional sources of chartered bank credit, many companies today sell their short and long term debt securities to a variety of investors including corporations, insurance companies, pension funds and other institutional investors both in Canada and the United States; and individual investors. Each of these investors has

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preferences as to the type and form of security required to secure their investment. In order to tap available sources of funds, the finance companies have created and have outstanding a wide variety of securities designed to meet different investment objectives.

122. Balance Sheet Summary

Table 6.1 shows the composite balance sheets of the ten largest sales finance companies at year-end in the period 1953-1961, and Table 6.2 gives a percentage distribution of these balance sheets.

123. Total assets have increased from $839 million at the end of 1953, to $1,582 million at the end of 1961. This large increase has been accompanied by the following major structural changes:

(A) A gradual reduction in the relative importance of notes receivable, which constitute the major earning assets of the sales finance industry. While net receivables of $786 million at the end of 1953 accounted for 93.8 percent of all assets, the corresponding figure of $1,261 million eight years later accounted for 79.7 percent of all assets.

(B) A sharp rise of investments and advances to subsidiary and associated companies. These amounted to $18 million at the end of 1953 and $202 million at the end of 1961. The sharp rise represents principally investments in personal loan subsidiaries. Investments and advances

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(B) A sharp rise of investments and advances to subsidiary and associated companies. These amounted to $18 million at the end of 1953 and $302 million at the end of 1961. The sharp rise represents principally investments in personal loan subsidiaries. Investments and advances

accounted for 2.2 percent at the end of 1953, as against 12.8 percent of all assets eight years later, showing a particularly steep rise in the last three years of this period.

(C) An accumulation of marketable securities which began to assume significance in 1958. Marketable securities held by sales finance companies amounted to only about $100,000 at the end of 1957. Holdings increased to $16 million a year later, $85 million at the end of 1959, $95 million at the end of 1960, and were then reduced to $71 million at the end of 1961. While one company (Industrial Acceptance Corporation) appears to account for a major share of these marketable security holdings, (see submission of I.A.C. to this Royal Commission, Tables V-1 and V-2) seven of the other nine largest companies report liquid assets of this type in recent years.

(D) The rising importance of marketable security holdings in the asset structure of sales finance companies is explained by the gradual decrease in the reliance on chartered bank credit lines, as a source of stand-by funds to finance a sudden upswing in receivables, or to pay

off maturing notes which are not refunded. The decreasing importance of bank loans in the overall debt structure of the companies, can be summarized as follows:-

| End of: | Bank Loans End of Year Million $ | Bank Loans as a Percentage of: Total Liabilities and Shareholders' Equity | Total Debt |
|---|---|---|---|
| 1953 | $ 191 | 22.8% | 29.5% |
| 1954 | 104 | 13.6 | 18.7 |
| 1955 | 172 | 18.9 | 25.0 |
| 1956 | 243 | 19.8 | 26.2 |
| 1957 | 156 | 12.1 | 15.8 |
| 1958 | 182 | 14.7 | 20.1 |
| 1959 | 194 | 13.3 | 17.6 |
| 1960 | 163 | 10.0 | 13.2 |
| 1961 | 109 | 6.9 | 9.4 |

Source: Tables 6.1 and 6.2

124. Summary of Capital Structure

Sales finance companies in Canada utilize both borrowed and equity funds to finance their operations. The proportion of their total funds represented by borrowings tends to be higher than for companies in many other industries; this is a fundamental characteristic of this industry, since the earning power of a sales finance company based on equity funds alone would be inadequate to attract investors. The companies have only minor investments in fixed assets and their earning assets consist

off maturing notes which are not re-funded. The decreasing importance of bank loans in the overall debt structure of the companies, can be summarized as follows:-

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largely of receivables, in the form of relatively liquid obligations arising from the extension of instalment credit. These represent an assured flow of cash as time rolls on.

125. A sizeable part of the debt of the larger companies is in the form of demand loans with the Chartered Banks and borrowings in the short term money market. By keeping some of their debt in these forms, companies obtain the advantage of lower rates of interest normally available on short term borrowings and are able to reduce their debt quickly if the requirement for funds diminishes due to a decline in business. This flexibility is important since it enables the companies to balance the supply of funds against the current volume of business and thereby to reduce borrowing costs.

126. However, the sales finance companies do not rely entirely on short term forms of capital. As borrowed funds are used to finance the purchase of instalment notes receivable maturing in two or three years or even longer, exclusive reliance on short term capital would make a company's financial position vulnerable during periods when short term funds are in short supply. Consequently, sources of longer term capital are also required.

127. An annual summary of the combined capital structure of the ten largest sales finance companies for the period 1953-1961 appears in Table 6.3. Although there are variations among companies, total debt provides about 5/6 of all the capital used by

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these companies, as against 1/6 from shareholders' equity. Short term debt, mainly as a result of a diminishing reliance on bank borrowings has decreased in relative importance, with an accompanying greater relative importance on long term notes and debentures.

128. Net Flow of Funds

Table 6.4 gives a summary of the annual net flow of funds in the period 1954-1961, based on the composite balance sheets of Tables 6.1 and 6.2. The distribution of the total net sources and disposition of funds for this period is also shown. The results emphasize the major structural changes listed earlier.

SOURCES OF FUNDS

Short Term Debt

129. (A) Chartered Banks

As noted above, the Chartered Banks have been a long standing source of funds for sales finance companies. While the banks are no longer as important proportionately as they were prior to and during the war, and in the early postwar years, they still represent an important source of funds, accounting for 17.6, 13.2 and 9.4 percent of the total debt outstanding at the end of the last three years. It is probable that the major sales finance companies are among the largest customers of the banks with whom they deal, and they provide large sources of income to the banks, particularly in activity charges. Bank loans have the advantage of offering flexibility to a

company's financial structure since they can quickly and easily be repaid at any time when the funds are not required. This flexibility is important. Since customers are constantly making payments against their instalment notes, a company's need for borrowed money will diminish rapidly if the amount of new business should decline for cyclical or seasonal reasons.

130. Bank borrowings normally take the form of demand loans, and are secured by collateral, usually in the form of notes receivable having a face value some 12 1/2 percent to 25 percent in excess of the principal amount of the bank loans outstanding. The amount of margin required depends on the credit standing of the particular company.

131. The rate of interest paid on demand loans is based on the prime bank borrowing rate, and with one major exception (between June and November 1961) for which no satisfactory explanation was given, the largest sales finance companies have obtained their funds at this prime rate. The prime rate itself is relatively stable and is changed only to reflect marked variations in the supply of and demand for bank credit. Consequently, the prime bank rate is not as sensitive to changes in the supply of and demand for short term money as might be expected.

132. The development of a money market in Canada has opened up a second source of short term funds at interest rates usually considerably below the prime bank rate. While this market has been utilized by the sales finance companies to a considerable

degree, it has not supplanted bank borrowings. Many companies have adopted the policy of keeping substantial bank loans even though short term funds were obtainable in the money market at lower cost, in order to maintain their lines of credit with the Chartered Banks against periods of tightness in the money market. Also because of the size of their bank borrowings, some of the larger companies have spread their business among all of the banks, and this distributes the loan risk of a single large borrower.

133. Table 6.5 shows the authorized, utilized and unused bank credit lines reported by the ten largest sales finance companies on a quarterly basis for the years 1953 to 1961. As a rule, the sales finance companies have kept substantial unused bank credit lines open in this period, with a high degree of utilization occurring only in the second and third quarter of 1953, between the fourth quarter of 1956 and the first three quarters of 1957, in the second half of 1959 and during most of 1960.

134. The experience of the sales finance industry in its dealings with the chartered banks in 1959 deserves special mention in this connection. While the reduction in bank credit lines both in 1956-1957 and in 1959 may have been in line with general monetary policy pursued by the Bank of Canada (which will be discussed in the next chapter), the 1959 policies took place against the background of a competitive pattern which had drastically changed. Thus, bank credit lines available to the sales finance

companies were reduced by $106 million between the first and second quarter of 1959, and by an additional $79 million between the second quarter and the third quarter of that year. In this period the outstanding bank loans of the ten largest sales finance companies were reduced by a net amount of $11 million (resulting from a $41 million decrease in the second quarter, followed by a $30 million rise in the third quarter). In the same interval, however, the outstanding "other personal loans" (including home improvement loans) of the chartered banks increased by a total of $133 million ($89 million in the second quarter and $44 million in the third quarter), thus contributing heavily to the totals for a year which marked one of the most rapid expansions of the chartered banks into the consumer credit field. The policy aspects involved in these developments will be discussed in Chapter VII.

135. Table 6.6 summarizes the interest rates charged by the chartered banks to the sales finance companies in the period 1953-1961. While some departures from uniformity appear in the early years of this period, complete uniformity has existed at the end of every quarter since the 4th quarter of 1955, with the exception of three quarters (III/1957, IV/1957 and I/1959) when the interest rate reported by one of the ten companies was temporarily different from that of the nine others.

136. <u>(B) Short Term Notes</u>

In the last decade, the development of the short term money market in Canada has led to

first and second quarter of 1959, and by an additional $73 million between the second quarter and the third quarter of that year. In this period the outstanding bank loans of the ten largest sales finance companies were reduced by a net amount of $11 million (resulting from a $41 million decrease in the second quarter, followed by a $30 million rise in the third quarter). In the same interval, however, the outstanding "other personal loans" (including home improvement loans) of the chartered banks increased by a total of $133 million ($89 million in the second quarter and $44 million in the third quarter), thus contributing heavily to the totals for a year which marked one of the most rapid expansions of the chartered banks into the consumer credit field. The policy aspects involved in these developments will be discussed in Chapter VII.

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In the last decade, the development of the short-term money market in Canada has led to

an improved utilization of temporary idle funds available from corporations, institutions and individuals. As large short term borrowers, the finance companies have played an important part in the development of this market. Their short term notes, offering the security, terms and interest rates necessary to attract lenders in this market are widely sold through investment dealers, or placed directly with large buyers. Maturities available range from 30 to 365 days, though in some instances companies report paper with maturities up to two years. Table 6.7 summarizes the growing use of short term notes by sales finance companies as a means for obtaining short term funds. The total volume of notes placed has increased from an average of $479 million in the years 1953-1955 to an average of $1,591 million in the years 1959-1961. Market placements (handled mainly through investment dealers) account for most of the short term notes sold (92 percent in 1959, 73 percent in 1960, and 78 percent in 1961), but the volume of direct placements increased sharply in 1960 and 1961, with several of the companies relying increasingly, or even exclusively upon direct placements. Outstanding short term notes at year-end have risen from $198 million at the end of 1953 to $323 million at the end of 1961. The highly cyclical pattern of both total volumes and outstanding notes is readily visible in Table 6.7 in the data for 1954, 1958 and 1961, but a more detailed analysis of these figures, on a quarterly basis, follows in Chapter VII.

137. Sales finance company short term notes

are normally secured by instalment notes receivable having a face value in excess of the principal amount of the notes outstanding in the same manner as demand bank loans. To facilitate secured borrowings from the banks and from non-bank short and long term borrowers, the practice has developed for the finance companies to issue their short and long term secured notes under the provisions of the same basic trust deed. As a result, notes issued to evidence secured borrowings in all categories of term rank equally with one and another and are subject to the same general conditions of creation and issuance.

138. Short term notes are issued with maturities to suit the purchaser, though most companies will not issue notes for less than 30 or more than 365 days. From time to time, individual sales finance companies may find that they have sufficient funds on hand in a particular short term maturity to meet their immediate requirements. Under such conditions, they may limit new subscriptions for such maturities, though they will generally renew outstanding notes for a further period, and stay in the market for their regular suppliers of short term funds.

139. As a general rule, the rates of interest paid vary with the terms of the notes, the longest term carrying the highest rate. A detailed record of interest rates paid on short term notes on a quarterly basis is shown in Tables 6.8-A to 6.8-F, showing the sensitivity of short term rates paid by the sales finance companies to changes in the supply of, and

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demand for funds in the short term money market. An analysis of the columns in these tables also suggests that there is some spread in the rates offered by the companies. Analysis of rates supplied by individual companies suggests that the high and the low end of the interest rate range is not necessarily a function of the size of the individual company. Temporary withdrawal by some companies from a segment of the short term market is illustrated by some of the bottom lines in the tables. Thus in the 30-day paper (Table 6.8-A) category, all ten companies were in the market at the end of the first and third quarter of 1961, while only nine companies reported 30-day paper rates at the end of the second and fourth quarter of that year. (See also Table 6.8-B; IV/1960 and I/1961, Table 6.8-C; II/1961, Table 6.8-D; I/1954, I/1955, II/1955, II/1961 and IV/1961, etc.) The increasing participation by the companies in various short term note maturities is also readily seen from these bottom lines. No more than one-half of the companies were in the short term note market in early 1953, (two of the companies had not started operations in Canada at that time.) while all companies were active in each of the short term maturities at one time or another during 1961.

140. Borrowings in the short term market provides some of the flexibility offered by bank credit. While the notes are not usually callable before maturity, most companies stagger their maturities so that notes are falling due every few days. Thus,

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141. In addition to this, the investments of the sales finance companies in wholesale paper are on a demand basis and are considered as a demand receivable in the construction of their financial statements. Some companies also provide an additional margin of safety in the form of highly liquid investments which can be sold in short notice in order to

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meet unexpected fluctuations in the short term money market.

Long Term Debt

142. (A) Notes

Long term notes are normally secured by instalment notes receivable in the same manner as the short term notes and demand bank loans, with which they rank equally. They are customarily issued under the provisions of the same basic trust deed as other secured debt.

143. The trust deeds of various companies provide restrictions on the amount of additional secured debt which may be issued. While these restrictions differ between companies, the effect of each is to prevent the issuance of additional secured debt unless there is adequate asset coverage to support it. One company's trust deed provides that additional secured debt may not be issued, if, after its issue, the total secured debt would exceed four times the total of unsecured debt and shareholders' equity. This provision is probably typical of the industry as a whole.

144. The supplemental trust deeds securing some issues of long term notes also provide that the notes cannot be called for redemption within a stated period of time as part of a refunding operation. This type of provision has usually been attached to notes issued during periods when interest rates were above normal and was designed to protect buyers for a period of time from being obliged to take a reduction in

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investment income through the future refunding of their notes at lower rates of interest when such action became possible. Generally, if notes are called for reasons other than refunding, this can only be done on a penalty basis -- such restrictions, together with the rates of interest and other provisions to be attached to the secured notes, are normally established by each finance company in conjunction with an investment dealer and are determined by the apparent requirements of the market at the time the notes are offered.

145. Commissions (or discounts) allowed to investment dealers in Canada for marketing long term notes by some of the companies are typically 1 percent of the authorized and issued amount; while companies that have sold long term notes in the United States reported somewhat lower rates, usually in the range of ½ to 3/4 of one percent.

146. The rates of interest paid on long term secured notes reported by the largest ten companies are summarized in Table 6.9. They are generally comparable with rates paid on senior obligations of other corporations having a high credit standing. Long term notes have usually found a ready market with insurance companies and other institutional investors both in Canada and the United States. On a few occasions, long term notes have been offered to the investing public, but in general, public offerings of long term securities have been limited to unsecured obligations (debentures) and various classes of equity.

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147. Long term notes outstanding on the books of the ten largest sales finance companies have increased from $140 million at the end of 1953 to $376 million at the end of 1961. Details are shown on Tables 6.1 and 6.2.

148. <u>(B) Debentures and Other Unsecured Debt</u>

Debentures or other forms of long term unsecured debt offer an important and desirable alternative to preferred share financing. The creation of unsecured debt, like equity, results in an improved margin of safety for bank loans and other secured indebtedness. It also provides an expanded base for future financing by such means. Interest on debentures is a deductible expense from the taxable income of the issuer, so that the net cost of servicing such debt is considerably less than the cost of preferred shares. For this reason most finance companies have made considerable use of debenture financing to help finance their post-war expansion.

149. The extent to which debenture financing may be utilized by a particular company is usually restricted by the trust indenture under which the debentures are issued. While these provisions differ between companies, it is usually provided that additional debentures may not be issued unless past earnings provide a specified coverage for interest requirements and unless the total shareholders' equity bears a specified minimum relationship to the amount of debenture debt to be outstanding. For independent,

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publicly-owned sales finance companies, as a general yardstick, one dollar of shareholders' equity will support one dollar of debenture debt.

150. Though offering a lesser degree of security than secured senior obligations, the debentures have usually found a ready market among both institutional and individual investors. Stock purchase warrants or conversion privileges have been often attached to debentures. This has been done for several reasons. One is to keep borrowing costs to a minimum during periods of high interest rates. A more moderate rate of interest is acceptable to investors if, at the same time, they are given an opportunity to participate in a company's equity. Another reason is to give a company a chance to raise equity funds on a more favourable basis than would be possible by making a direct issue of treasury shares in the market.

151. Debentures outstanding on the books of the ten largest sales finance companies have increased from $104 million at the end of 1953 to $265 million eight years later. Details are shown in Tables 6.1 and 6.2. A detailed record of interest rates paid on debenture issues in the period 1953-1961 is shown in Table 6.10.

Shareholders' Equity

152. (A) Common Shares

A moderate amount of common share financing has been carried out in the post-war period by the sales finance companies. Generally this has

taken the form of indirect offerings of common shares through stock purchase warrants or conversion privileges attached to debentures or other senior securities. Some shares have also been issued in exchange for control of other companies. There have been very few direct offerings of shares for cash, either through rights to existing shareholders or by underwritings of blocks of treasury shares.

153. There are several reasons for keeping common share financing to a minimum. Common shares are the least flexible form of capital which a company can issue. They become part of a company's permanent capital and cannot subsequently be redeemed except by the legal process of applying for alteration to the company's charter to permit a reduction in capital. Thus, companies are hesitant to finance, on a permanent basis, increases in business which may prove to be temporary. Furthermore, the issuance of additional common shares tends to dilute the existing shareholders' interests in future earnings.

154. The outstanding common stock on the books of the ten largest sales finance companies has increased from $37 million at the end of 1953 to $84 million at the end of 1961. In the same period the earned surplus of the companies has risen from $28 million to $87 million, while the capital surplus has increased from $354,000 to $2.4 million (see Table 6.1).

155. Sales finance companies have been able to finance most of their expansion in the post-war

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155. Sales finance companies have been able to finance most of their expansion in the post-war

period from sources other than common share financing. This has been made possible by the equity built up prior to 1946 which could be used as a base for substantial borrowings in the post-war period, by increased markets for and greater investor acceptance of the debt securities of the various companies, by retained earnings which tended to increase equity rapidly, and by the use of preferred share and debenture issues as alternatives to common share financing.

156. (B) Preferred Shares

Preferred shares, which carry a fixed dividend, enable a company to increase its equity without the same dilution to the existing common shareholders' interests in future earnings as results from common share financing. Furthermore, preferred shares are normally callable, so that the capitalization of the companies can be more readily reduced if the funds are not subsequently required. These reasons make preferred stock financing attractive to the sales finance companies.

157. A ready market exists among taxable Canadian investors for such shares, since individual taxpayers are able to deduct the 20% dividend credit from the income tax otherwise payable on dividends received and corporations receive such dividends free of tax. Normally insurance companies, pension funds and other institutional investors which are tax-free or in low tax brackets are not buyers of preferred shares, since they can obtain as favourable or better after-tax yields with greater security in other

investments.

158. Since preferred dividends cannot be deducted as an expense item from the taxable income of the issuer, the effective cost of such financing is high. For a company in the 50 percent income tax bracket, the payment of a 5 percent dividend on preferred shares costs twice as much in pre-tax earnings as the payment of a 5 percent rate of interest on funded obligations. For this reason, companies have tended to keep preferred share financing to a minimum. The policies of the various sales finance companies differ, but in most, less than 10 percent of the total long term capital requirements have been provided through preferred share financing. Preferred stock outstanding on the books of the ten largest sales finance companies has increased from $18 million at the end of 1953 to $40 million at the end of 1961.

Other Aspects of Sources of Funds

159. (1) Sources of Capital available to Small Privately-Owned Companies

Though small privately-owned sales finance companies account for a relatively small part of the total sales financing business in Canada, there are a considerable number of them. As private companies, they are prohibited by law from inviting the public to subscribe for their shares or debt obligations. Without access to public capital markets, they rely for their financing on the amounts which they can raise privately or through bank borrowings.

160. There is very little public

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information available concerning the basis on which these companies are financed. However, it is unlikely that they are able to borrow as high a proportion of their required funds in relation to equity and assets as can the larger companies. It is also probable that they must pay higher rates of interest. In periods of tight money, when bank credit is restricted, it is likely that many of these companies have found it difficult to expand and some may even have found it necessary to retrench or seek consolidation with larger companies.

161. (2) Additional Sources of Capital available to Subsidiaries of U.S. and U.K. Companies

A substantial volume of financing business is carried on in Canada by subsidiaries of U.S. and U.K. companies, and in the past, foreign-owned companies have generally financed their operations through the issue and sale of short and long term obligations in Canada. However, these companies can use advances from their parent companies, and they have done this occasionally during periods when interest rates in Canada were unusually high or when short term funds were not readily available at a reasonable cost in the money market.

162. Unlike the domestically-owned companies, which issue both secured and unsecured obligations, the foreign-owned companies generally issue unsecured obligations only. To offset the lack of specific security, their obligations usually carry the

information available concerning the basis on which these companies are financed. However, it is unlikely that they are able to borrow as high a proportion of their required funds in relation to equity and assets as can the larger companies. It is also probable that they must pay higher rates of interest. In periods of tight money, when bank credit is restricted, it is likely that many of these companies have found it difficult to expand and some may even have found it necessary to retrench or seek consolidation with larger companies.

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guarantee of the parent company, this guarantee being sufficient to enable them to compete on reasonably equal market terms with the secured debt of the domestic companies.

163. As Table 6.1 shows, advances from parent companies in the period 1953-1961 were reported in six out of the nine years with totals ranging from $5 million at the end of 1954 to $11 million at the end of 1961. In view of the overall use of funds by these companies, parent company advances have played a very minor role.

164. (3) Funds Obtained Abroad

The importance of funds obtained abroad in the capital structure of the companies is shown in Table 6.11. Details are provided for (a) outstanding bank loans, (b) outstanding short term notes, (c) long term notes and debentures outstanding, (d) common stock, (e) preferred stock, and (f) advances from parent companies.

165. An increasing use of foreign funds (mainly from the United States) is visible particularly in the short term notes, long term notes and debentures. At the end of 1961, loans from U.S. banks accounted for about 13 percent of all bank debt outstanding, while 21 percent of all short term notes outstanding, and 23 percent of long term notes and debentures had been sold in that country. About 10 percent of the common stock, and 7 percent of the preferred stock outstanding had originally been sold in the United States, and all advances from parent

companies originated in that country. Small amounts of short term notes, and common stock financing originated in other countries.

166. In some cases the principal and interest on this financing is payable in Canadian funds, the buyer taking the risk of fluctuations in foreign exchange rates. If repayment is made in United States funds, the exchange risk is borne by the issuer. Generally speaking, finance companies issue debt payable in United States funds only when there is a substantial spread in interest rates between the two countries and where the saving in interest seems sufficient to justify the risks of exchange fluctuations.

167. Relationships with Investment Dealers

Finance companies which raise a large portion of their capital requirements in the securities market have close working relationship with investment dealers. Each company has a particular investment dealer who acts as fiscal agent and counsels the finance company as to the type of security required to raise necessary funds under existing market conditions and the prevailing structure of the company's capital. In the process the dealer also advises on such matters as coupon or dividend rate, offering price and the specific attributes and characteristics to be carried by the security to be marketed.

168. In the case of public issues, the dealer usually acts as principal and underwrites the entire issue at a price negotiated with the finance company. To share his underwriting liability and to

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obtain marketing assistance, the dealer may invite a small group of investment dealers into a banking group and offer them a percentage participation in the issue at a step-up in price over his cost. If the issue is a large one and wide distribution is required, the banking group, in turn, may form a selling group comprised of additional investment dealers and invite them to participate in marketing the issue by subscribing for a block of the issue for resale to their clientele at the established offering price. To reimburse selling group members for services rendered in marketing a portion of the issue, the banking group pays a selling group commission out of its underwriting spread, i.e. the difference between the cost of the issue to the banking group and the retail offering price.

169. In the case of private placements, the investment dealer usually acts as agent for the issuer and therefore does not take on any underwriting liability. The same advisory and negotiating processes are carried out between the two parties to establish marketing terms. For these services and for finding buyers, the investment dealer is paid a commission. Because no risk is assumed by the dealer, the commission paid for private placements is usually less than the amount of an underwriting fee. In both public issues and private placements it is customary for the issuer to pay legal, auditing and other expenses incurred in preparing an issue for the market.

170. In placing short term securities,

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110. In placing short term securities,

marketing arrangements are somewhat different. Since the marketing of short term securities is a continuous operation, the details of sale and issue are handled directly by the sales finance company. The interest rates offered by the finance companies on their short term securities are published and circulated among the investment dealers, usually by the company's fiscal agent, and any dealer is welcome to place subscriptions directly with the company. Under this arrangement, dealers act for the company and receive a commission for their services based on a percentage of the amount of short term securities placed in each transaction. The commission rates paid to dealers for the placement of short term securities are also circulated among the dealers so that all dealers, including the company's fiscal agent, are accorded equal treatment. Confirmation of transactions in short term securities and delivery arrangements are handled directly by the sales finance companies. They also pay all costs of creation and issuance. The commission rate presently paid on short term notes placed through investment dealers is reported by some of the companies at 2½ cents per $100.00 per month. This represents a one cent decline from the rate generally prevailing before 1961.

171. This technique of marketing short term issues was initially developed by the finance companies in conjunction with their fiscal agents in the mid-1950's when the short term money market in Canada was organized and became established as a source

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interest rates offered by the finance companies on their short term securities are published and circulated among the investment dealers, usually by the company's local agent, and any dealer is welcome to [illegible] this arrangement, dealers act for the company and receive a commission for their services based on a percentage of the amount of short term securities placed in each transaction. The commission rates paid to dealers for the placement of short term securities are also circulated among the dealers or they will [illegible]

In short term securities and delivery arrangements are handled directly by the sales finance companies. They also pay all costs of creation and issuance. The commission rate presently paid on short term notes placed through investment dealers is reported by all of the companies at 2½ cents, or $25.00 per million, which represents a one cent decline from the rate generally prevailing before [illegible]

[illegible] bank loans are initially developed by the finance companies in connection with their [illegible] in the early 1950's when the short term money market in Canada was organized on a more [illegible]

of funds for the sales finance companies. It has proved to be a flexible and easily operated means of obtaining funds in that market.

172. Earnings and Expenses

Table 6.12 summarizes the income and expense statements of the ten largest sales finance companies for the years 1953-1961. Developments in this period can be summarized as follows:-

(A) Total gross earnings have increased from an average of $79.3 million in the years 1953-1955 to an average of $147.9 million in the years 1959-1961. These gross earnings include the following components:-

(1) Retail finance charges earned. Total retail finance charges earned have increased from an average of $68.2 million in the years 1953-1955 to an average of $117.7 million in the years 1959-1961. They accounted for more than 85 percent of total gross earnings in the early part of this period, and 80 percent in more recent years.

(2) Wholesale finance charges. The figures reported are after allowance for wholesale insurance expenses which usually range between 3 and 4 percent of total wholesale finance charges earned. Between 1953 and 1955 wholesale gross earnings averaged $8.5 million, while the corresponding figure for 1959-1961

of loans for the sales finance companies. It has proved to be a flexible and easily operated means of obtaining funds in that market.

[illegible]

Table 6.12 summarizes the income and [illegible] statements of the [illegible] largest sales finance companies for the years 1953-1961. Developments in this period can be summarized as follows -

(a) Total gross earnings have increased from an average of [illegible] million in the years 1953-1955 to an average of [illegible] million in the years 1959-1961. These gross earnings include the following components -

(i) Retail finance charges earned. Total retail finance charges earned have increased from an average of [illegible] million in the years 1953-1955 to an average of [illegible] million in the years [illegible]

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than [illegible] percent of total gross earnings in the early part of this period, and [illegible] percent in more recent years.

(ii) Wholesale finance charges. [illegible] represent the share of [illegible] which [illegible] normally [illegible] between [illegible] and [illegible] percent of total

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was $15.2 million. They account typically for about 10 to 12 percent of all gross earnings, but in 1961 the ratio was 9 percent.

(3) Income from capital loans to dealers has increased from less than $200,000 in the early part of this period to slightly more than $1 million in 1961. The nature of these loans has already been explained in Chapter III, and as an overall source of earnings, they play only a minor role in the income received by sales finance companies.

(4) Dividends and interest on investments have become significant in recent years as the result of the accumulation of highly liquid investments for liquidity purposes. In 1961 they amounted to 3.7 million (2.4 percent of gross earnings), but since these investments require a correspondingly higher level of borrowing, there is an offsetting element to this income in additional interest costs to the companies.

(5) Dividends and interest from associated companies are a minor item. They amounted to $90,000, or 0.1 percent of total earnings in 1961.

(6) Dividends and interest received from small loan subsidiaries have risen

sharply from an average of $662,000 in the years 1953-1955, to $5,963,000 in the years 1959-1961.

(7) Insurance subsidiary interest and dividend payments are a minor and fluctuating item, typically accounting for about 1/4 of one percent of total gross earnings.

(8) Income from other subsidiaries than small loan and insurance companies has gradually risen in importance and amounted to 1.8 million, or 1.1 percent of total gross earnings in 1961.

(9) Miscellaneous income (past due charges, extension charges, etc.) has increased from an average of $1.1 million in the years 1953-1955, to an average of $3.0 million in the years 1959-1961, accounting for 1.4 percent of total gross earnings in the earlier part of this period as against 2.0 percent more recently.

(B) The expenses of the sales finance companies are made up of the following major components:-

(1) Money costs, including interest on loans and funded debt, as well as the cost of acquisition of borrowed money. This is the largest single cost item which has accounted for the following ratio of total gross earnings in the period

under review:

| | | |
|---|---|---|
| 1953 - 32.4% | 1956 - 33.7% | 1959 - 38.5% |
| 1954 - 31.8 | 1957 - 40.0 | 1960 - 41.1 |
| 1955 - 27.6 | 1958 - 33.9 | 1961 - 38.2 |

Average 1953-1961 : 36.2%

(2) Provisions for losses have typically ranged between 3 and 5 percent of total gross earnings, exceeding these limits only in one year - 1955, when the ratio amounted to 6.3 percent.

(3) Salaries and wages account for an average of 16.5 percent of total gross earnings. Total employment reported by all participating members in the FCSFC survey amounted to 6,418 persons at the end of 1961.

(4) Rent, depreciation and other administrative expenses have accounted for 12.6 percent of gross earnings in the period 1953-1961. The range for these expenses has been from a low of 11.1 percent in 1953 to a high of 14.0 percent in 1954, and in 1961 it amounted to 12.6 percent.

(5) The total of the above expenses has averaged 69.6 percent of gross earnings, leaving earnings before income taxes at an average of 30.4 percent of gross earnings for the period 1953-1961. This

ratio has gradually declined and amounted to 27.0, 26.9 and 28.6 percent in the last three years.

(6) Net earnings after income taxes have averaged 15.7 percent for the period 1953-1961. The ratio is higher for the earlier years in this period, and in the last three years it amounted to 14.0, 13.7 and 14.3 percent. Total net earnings of the ten companies averaged $13.5 million in 1953-1955, as against $20.7 million in 1959-1961. Total net earnings show an upward trend during this period, interrupted mildly in 1954 (because of large increases in administrative expenses), and a sharp decline in 1959 because of a sharp increase in interest costs.

173. Table 6.13 summarizes the overall profitability of the sales finance companies for the period 1953-1961. Net earnings as a percentage of total shareholders' equity have averaged 12.2 percent during this nine-year period, but in the last three years the ratios have been 10.6, 11.4 and 10.4 percent, showing a decline from earlier years. The rate of return on total assets has averaged 1.5 percent during this nine-year period.

174. A surplus statement for the ten largest sales finance companies is shown in Table 6.14. Total earned surplus of the companies has increased

from $22.5 million at the beginning of 1953 to $87.1 million at the end of 1961. Total dividend pay-out (preferred and common) has averaged 61.7 percent of net earnings in the period 1953-1961.

175. Other Financial Aspects

Nine of the ten largest sales finance companies report a total of 88 directors. None of these directors are sitting on the boards of any other sales finance company. Two of the companies reported three directors each on the boards of Canadian chartered banks; three of the companies reported a total of twelve directors sitting on the boards of Canadian trust companies; and four of the companies reported a total of seven directors sitting on the boards of life insurance companies.

# CHAPTER VII

## MONETARY POLICY AND THE OPERATIONS OF THE SALES FINANCE INDUSTRY

### Cyclical Behaviour of Sales Finance Credit, 1953-1961

176. In order to obtain a more accurate picture of the cyclical behaviour of sales finance credit during the period 1953-1961, the FCSFC has processed the data supplied by the ten largest companies by electronic computer in order to eliminate seasonal fluctuations. (Specifically, the processing was done on a Univac computer, using Census Method II, developed by Julius Shiskin, Chief Economic Statistician of the United States Bureau of the Census.) This facilitates an analysis of sales finance credit in relation to major cyclical developments during this period.

177. Volume of New Business

Table 7.1 and Chart 1 show the behaviour of new automobile retail paper purchased by the ten companies in relation to (1) general turning points in the economy (called Reference Dates), and (2) the total value of new passenger vehicle sales in Canada (as reported by D.B.S.). At the three low points of the business cycle during the period under review (i.e. the second quarter of 1954, the second quarter of 1958 and the first quarter of 1961), new automobile retail paper purchased by the ten largest companies generally shows a lag, reaching its lower turning point respectively three, one and one-quarter

later than business in general. At the two business cycle peaks the relationship was less consistent, with paper purchased reaching an upper turning point in the second quarter of 1956 (two quarters ahead of the general business peak in the first quarter of 1957), and lagging by one-quarter behind the general business peak of the first quarter of 1960.

178. The conformity of the new automobile paper purchased series to turning points in overall business differs only slightly from theoretical expectations. New paper purchased reflects one aspect of the flow of consumer credit (the other being repayments), and outstanding notes are the related inventory. It is believed (on the basis of U.S. data) that new consumer debt is generally coincident with overall business turning points, while the amount outstanding will show a lagging pattern, since it continues to rise after new debt turns down, as long as new paper purchased exceeds repayments. (Business Cycle Indicators, Volume I of "Contributions to the Analysis of Current Business Conditions", Geoffrey H. Moore, Editor, National Bureau of Economic Research, 1961, pages 320-321.) The data analyzed here cover too few cycles to permit broad generalizations, but from the evidence at hand, it must be concluded that the volume of new automobile instalment paper purchased, with the exception of the lead on the 1/1957 general business peak, behaves like a slightly lagging series.

179. Table 7.1 also summarizes the

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in the [illegible] (two quarters, also [illegible]
the period [illegible] work in the three quarters of
1967), and lagging by one-quarter behind the general
[illegible] of the first quarter of 1968.

[illegible] The conformity of the new automobile
paper [illegible] series to turning points in overall
[illegible] differs only slightly from [illegible]
[illegible]. New paper purchases reflect the [illegible]
of the flow of [illegible] during the
recessions), and outstanding notes are [illegible]
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that [illegible] that is [illegible]
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relationship between turning points in the value of new automobile sales and new automobile paper purchased by the ten companies. At the three lower turning points in new passenger vehicle sales, paper purchased was coincident (II/1954), lagged by three-quarters (III/1958 vs. IV/1957), and lagged by one-quarter (II/1961 vs. I/1961). This suggests that at the lower turning point of the new passenger vehicle sales cycle, new automobile sales finance credit started rising either coincidentally or later than vehicle sales. At the two upper turning points, paper purchased lagged in one case by one-quarter (III/1956 vs. II/1956), and was coincident at the next peak (II/1960). Here the performance during 1956 is important. It suggests that the upper turning point reached in new passenger car sales in the second quarter of 1956, must have reflected a turning point in consumer demand, which was not related to any major impact from the sales finance credit side. If we accept the idea that sales finance credit faces a derived demand from the sale of the goods it finances, this behaviour is entirely consistent with a priori expectations.

180. The relationship of used automobile paper purchased by the ten companies to turning points in general business is brought out in Table 7.2 and Chart 2. The series lags at the lower turning points (by two, two and three quarters respectively at the troughs of II/1954, II/1958 and I/1961), while it leads at the upper turning points of I/1957 and I/1960

by one quarter in each instance. Other consumer goods paper purchased (also shown in Table 7.2 and Chart 3 was coincident at the 1954 trough, and lagged by three quarters at the following two lower turning points. This series also leads the business peaks of I/1957 by three quarters and that of I/1960 by one quarter. This peak-leading and trough-lagging behaviour is found in other economic series (such as unemployment), but because we have data covering only two full cycles, any generalizations based on this pattern seem unwarranted.

181. Table 7.3 summarizes the amplitudes of sales finance credit paper purchased during this period. The annual data are shown mainly to indicate that annual comparisons obscure not only turning points, but also a part of the amplitudes of the movements involved. By far the sharpest expansion in the mid-1954 to mid-1956 sales finance credit increase occurs in new automobile paper purchased. The value of new paper purchased more than doubled from a low of an annual rate of $247.8 million per year ~~in~~ IV/1954 to $498.4 million per year at the peak rate in III/1956. The expansion in used automobile instalment paper purchases (which started at approximately the same absolute level of about $250 million) was more moderate, amounting to only 27.9 percent, with the peak annual rate of purchases in the fourth quarter of 1956 running at $330.4 million. Other consumer goods paper purchases expanded from an annual rate of $85.6 million in the second quarter of 1954 to $140.0

of the quarter in each instance. Other consumer goods [illegible] purchases, also shown in Table 7.2 and Chart [illegible] were coincident at the 1954 troughs, and lagged by [illegible] quarters at the following two lower turning points. This series thus leads the business peaks of [illegible] by one quarter and that of II/1960 by [illegible] [illegible] however, as found in other economic series (such as unemployment), but perhaps a [illegible] late covering only two full cycles, any generalization based on this pattern seem unwarranted.

182. Table [illegible] summarizes the amplitude of sales finance credit major purchased for [illegible] period. The annual data are shown mainly to indicate that annual comparisons obscure not only turning points, but also a part of the amplitude of the movements involved. By far the sharpest expansion in the 1954 to mid-1955 sales finance credit increase occurs in new automobile paper purchased. The value of new paper purchased more than doubled from a low of an annual rate of $[illegible].8 million per year in IV/1954 to $[illegible] million per year at the peak rate in III/1955. The expansion in used automobile instalment paper purchased, which started at approximately the same position level of about $950 million, was more [illegible] [illegible] [illegible] peak annual rate of purchases in the fourth quarter of 1955 amounting to $[illegible].4 million. Other consumer goods paper purchased [illegible] from an annual rate of $[illegible].6 million in the second quarter of 1954 to $[illegible].

million in the second quarter of 1956; the 64 percent increase falls about midway between the amplitudes for new and used automobiles.

182. After its III/1956 peak, the volume of new automobile paper purchased declined by 30.7 percent to an annual rate of $345.2 million in the third quarter of 1958. The amplitude of this decline was much sharper than corresponding declines of used automobile and other consumer goods paper purchases (respectively 15.4 and 12.2 percent). In the ascending phase of the 1958-1961 cycle, new automobile instalment paper purchased never reached the earlier peak of III/1956, reflecting (1) the much milder, and incomplete nature of the expansion which peaked out in the first quarter of 1960 for the economy in general, but lasted to the second quarter of 1960 for the specific series under review, and (2) competitive developments which reduced the market share of the sales finance companies in the financing of new automobile instalment debt. A parallel is found in the used automobile paper series where the peak occurs in the fourth quarter of 1959 at an annual rate of $313.2 million, which was about 5 percent below the previous peak of $330.4 million in the fourth quarter of 1956. Among the three categories of paper purchased, only the other consumer goods group shows a higher peak in the 1958-1960 upswing than in the previous cycle, and this was followed by a rather sharp decline in the volume paper purchased which lasted through to the last quarter of 1961.

183. Total Notes Receivable

Total notes receivable outstanding in the books of the ten sales finance companies show a fairly consistent lag at both the upper and lower turning points in general business for the period under review. The results of our analysis are shown in Table 7.4 summarizing the extent of the lag and the amplitude of movements. The behaviour of this series generally conforms to the accepted performance of series measuring the amount of outstanding consumer credit. In this instance, total notes receivable series also include wholesale financing, and industrial and commercial equipment financing. The fact that total notes receivable kept rising well beyond the upper turning points in 1956 of the various series indicative of new instalment credit granted (because repayments after a long period of expansion will generally fall short of new credit granted even after the latter starts turning down) obscured the basic behaviour of sales finance credit during the second half of 1956 and early in 1957.

Cyclical Behaviour of the Finance Charge

184. Retail Finance Charges

Table 4.1 listed the reported dollar finance charge payable by the consumer for financing a $2,000 unpaid balance on a new automobile on the basis of data supplied by 17 sales finance companies. For this example, seven of the ten largest companies supplied quarterly data for the period 1953-1961, and

this information is shown in Table 7.5 on an index basis (using II/1954 = 100) for the purpose of determining the sensitivity of the retail finance charge to changing money costs for the sales finance companies, and to changes in general business conditions.

185. In the period between early 1954 and the first half of 1955, short term interest rates paid by the sales finance companies declined (see Tables 6.8A to 6.8F). Three of the companies reporting quarterly data on retail finance charges show a reduction between the last quarter of 1954 and the first quarter of 1955. The extent of this reduction (measured on the total dollar finance charge of a $2,000 unpaid balance on a new automobile financed over 30 months) is relatively minor, amounting to 3, 4 and 7 index points in ascending order. A fourth company, reporting a range for finance charges, shows an increase in the upper limit of the range in the fourth quarter of 1954, followed by an increase in the lower limit of this range in the first quarter of 1955. (See Company "No. 2").

186. Interest rates paid by the sales finance companies increased steadily from the second half of 1955 to the end of 1956. Taking 90 day short term paper as an example, the rate paid by four of the six reporting companies was 1 3/4 percent at the end of the second quarter of 1955. By the end of 1956, four of the eight reporting companies were paying a rate of 5 1/4 percent, two a rate of 5 percent, and the remaining two a rate of 5 1/2 percent. (See

that information is shown in Table 7.5 on an index basis (using 1.4/1.1954 = 100) for the purpose of determining the seasonality of the overall finance charges in [illegible] the money costs for the major finance companies and in changes in [illegible] practices [illegible]

187. In the period between early 1954 and the third half of 1955, except [illegible] rates paid by the large finance companies declined (see Tables [illegible]). None of the companies reporting quarterly data on retail finance charges show a reduction between the first quarter of 1954 and the first quarter of 1955. The effect of this reduction measured on the total dollar finance charge of a [illegible] new automobile financed over [illegible] months) is relatively minor, amounting to [illegible] 7 dollar [illegible] in [illegible] a range [illegible] finance charges, [illegible] in the [illegible] of the [illegible] in the lowest quarter of 1954, followed by an increase in the [illegible] [illegible] in the range in the first quarter of 1955 (See Appendix No. [illegible]).

188. Interest rates paid by the finance companies [illegible] increased [illegible] from the [illegible] of [illegible] to the end of 1955. [illegible]

Table 6.8-C). In comparison, the retail finance charge reported by seven companies on a quarterly basis, appears to be relatively insensitive, and slow to reflect rising interest costs. Taking the second quarter of 1955 as a basis of comparison, two companies report no increase during this period, three companies report increases of 3 index points, while the remaining two companies show somewhat larger increases at the upper end of the range of their reported finance charges. As Table 7.5 shows, retail finance charge increases were more pronounced in the first half of 1957 when tight money, and high interest costs to the sales finance companies continued. Thus, three of the seven companies report a higher retail finance charge in the first quarter of 1957, while a fourth company shows a higher charge in the second quarter of 1957. The magnitudes of these 1957 increases are larger, amounting to 7, 10, 17 and 18 index points reported by the four companies in ascending order. These retail finance charge increases took place in the initial phase of the 1957-1958 recession, and more than half a year after new automobile instalment paper purchased had started declining in response to decreases in the new passenger car sales.

187. The downswing in short term interest rates paid by the sales finance companies in the 1957-1958 recession occurred between the fourth quarter of 1957 and the second quarter of 1958 (see Table 6.8-C, for example, for the rate paid for 90 day paper). In this period, retail finance charges reported by the

b[illegible] [illegible]). In comparison, the retail finance charge reported by [illegible] on a quarterly basis, appear to be relatively insensitive, and also to reflect money market costs. Taking the second quarter of 1955 as a base of comparison, two companies report no increase during this period, three companies report increases of 2 index points, while the remaining two companies show increases [illegible] at the upper end of the range of [illegible] adjusted finance charges. As Table 7.5 shows, retail finance charge increases were most pronounced in the first half of 1957 when tight money, and high interest costs to the sales finance companies continued. Thus, three of the seven companies report a higher retail finance charge in the first quarter of 1957, while a fourth company shows a higher charge in the second quarter of 1957. The magnitudes of these [illegible] increases are larger, amounting to 7, 10, 11 and 17 index points recorded by the four companies in ascending order. These retail finance charge increases took place in the [illegible] [illegible] of the 1957-58 recession and more than half a year [illegible] automobile instalment credit purchased [illegible] declining in response to decrease in the [illegible] automobile sales.

167. The downswing in [illegible] rates [illegible] by the [illegible] finance companies in the 1957-1958 recession occurred between the fourth quarter of 1957 and the second quarter of 1958 (see Table 6.2-C) [illegible]. For the [illegible] ([illegible]) [illegible] this period retail finance charges reported by the

seven companies once again appear relatively inflexible. Six of the seven reporting companies report no change in the retail finance charge (one of these, Company No. 6, shows a fractional increase in the first quarter of 1958, followed by a similar decrease in the second quarter leaving the rate, on balance, one index point lower); while the remaining company shows a decline at the end of the third quarter of 1958 (Company No. 4).

188. From the end of the third quarter of 1958 until the third quarter of 1959, short term interest rates paid by the sales finance companies once again moved upward sharply. While six of the nine reporting companies paid a rate of 2 3/4 percent on 90 day paper at the end of the third quarter of 1958 (rates for the other three were reported at 2 1/4, 3 and 3 1/4 percent), the range of rates reported a year later was between 6 and 6 1/2 percent, with four companies reporting the highest end of this range.

189. The retail finance charges reported by the companies follow no central theme in this period, which was otherwise characterized by extremely high interest rates, drastic action on the part of the chartered banks in cutting the credit lines of the sales finance companies, as well as increasing competition in the sales finance business. Two of the seven companies (Nos. 3 and 6) report no increase in the retail finance charge, while four others show increases in the first, second and third quarters of 1959 (respectively Companies Nos. 5, 4, 1 and 7).

The other company (No. 2) reduced the lower end of its reported range in the first quarter of 1959.

190. Following their third quarter of 1959 peak, short term interest rates paid by the sales finance companies declined sharply during the next four quarters, with the 90 day rate reported by eight out of nine companies ranging between 2-1/2 and 2-3/4 percent at the end of the third quarter of 1960. From that point on, until the end of 1961, the rates remained in a much narrower range. Thus, the 90 day rate increased in the fourth quarter of 1960, and then settled down in the range of 3 to 3-3/4 percent. The changes in retail finance charges for this period generally point in a downward direction which seems to be even less closely related to interest rates than in the earlier parts of this period. Three of the seven companies, which report a range of charges, show a reduction at the lower end of the range in the first half of 1960. A fourth company (No. 5) shows sharp successive reductions (in the second quarter of 1960, and in the second quarter of 1961), while the charge reported by the remaining three companies stays unchanged throughout this period. The general behaviour of the charges is consistent with the intensifying competition experienced by the sales finance business during this period from the chartered banks and credit unions.

191. The behaviour of retail finance charges for the period under review can be summarized as follows:

(A) A distinct lack of uniformity as far as its response to changing short term money costs on the part of the sales finance companies is concerned. At best, the finance charge trails the ups and downs of short term interest rates paid by the companies, and there is no consistent (or uniform) behaviour on the part of the companies reporting finance charges in sufficient detail.

(B) The data presented here cast some doubt on the widely held opinion that in periods of monetary tightness, higher interest rates are quickly passed on to the consumer. On the other hand, analysis of the repayment period data provided in the next section will show that repayment terms (particularly on new automobiles) have indeed lengthened -- but this is an underlying pattern for the entire period under review, which is accentuated in those years of the cycle where consumer durable goods sales are showing their most rapid growth.

(C) The retail finance charge itself appears to be more sensitive to long term rates, or basic trends in the average interest costs of the sales finance companies.

192. <u>Wholesale Finance Charges</u>

Annual data for the reported wholesale

finance charges of the largest sales finance companies were summarized in Tables 4.4 and 4.5. While the companies were not requested to provide other details, some companies mentioned that the response of wholesale charges to changing money market conditions is more rapid and more pronounced than in the case of retail finance charges. A similar responsiveness is also found in finance charges on industrial machinery and equipment financing.

Average Repayment Terms

193. Sufficient details on average repayment terms on new automobile contracts were provided only by four of the largest ten companies, and the available data are summarized in Table 7.6. (D.B.S. data on average repayment terms on retail paper purchased are not available prior to 1958.) The data show that the underlying trend of repayment terms has been upward, and that the increase in average repayment terms for the period under review has taken place both in prosperity and recession. In absolute terms, the most rapid increase in average repayment periods appears in 1955. As far as new automobile financing is concerned, this confirms the belief that in the boom of the middle Fifties there was a lengthening of instalment credit repayment terms. But the lengthening seems to be related to the increases in the price of durable consumer goods (particularly automobiles; and presumably to keep monthly instalment payments unchanged) and unrelated in timing and in amplitude to

[illegible]

and summarized in Table 7.[illegible]. [illegible]

companies were not requested to provide other details. Some companies mentioned that the response of whole-sale charges to changing money market conditions is more rapid and more pronounced than in the case of retail finance charges. A similar responsiveness is also found in finance charges on industrial machinery and equipment financing.

Average Repayment Terms

195. Sufficient details on average repayment terms on new automobile contracts were provided only by four of the largest ten companies, and the available data are summarized in Table 7.6. (D.B.S. data on average repayment terms on retail paper purchased are not available prior to 1958.) The data show that the underlying trend of repayment terms has been upward, and that the increase in average repayment terms for the period under review has taken place both in prosperity and recession. In absolute terms, the most rapid increase in average repayment periods appears in 1955. As far as new automobile financing is concerned, this confirms the belief that in the boom of the middle Fifties there was a lengthening of instalment credit repayment terms. But the lengthening seems to be related to the increases in the price of durable consumer goods (particularly automobiles) and consequently to keep monthly instalment payments [illegible] and unrelated to [illegible] and in addition to

changes in reported detail finance charges. The pattern is less evident in the data relating to used automobiles and other consumer goods. As Table 7.7 (used automobiles) and Table 7.8 (other consumer goods) show, the lengthening of repayment terms for these types of goods has been much more moderate than for new automobiles.

194. Companies participating in our survey were virtually unanimous in reporting that tight money periods did not have any visible impact on average repayment terms. However, during such periods a large number of companies were forced to do considerable screening in the purchase of their instalment contracts in order to discourage an undue loosening of terms. The following quotations from summaries submitted by our participants illustrate this point:

"Periods of tight money induce, to a certain extent, stricter purchasing of paper by the finance companies in the form of rejecting more contracts for inadequate down payment or longer terms.

"In general, these periods of stringency had little effect on the terms of financing retail contracts. The average length of our retail contracts was increasing throughout the period under review, but the contract term was not affected significantly by "tight money", as such. The influence of business prosperity, and the coming into

the market of large numbers of marginal credit buyers was far more significant.

"Tight money conditions probably contributed to some extent to the lengthening of repayment periods, particularly in heavy equipment financing, but it is our opinion that other factors in the economy played a more important role. In the field of consumer goods financing, commodity price increases and competitive conditions among manufacturers and retailers over the past five years undoubtedly were major causes of lengthening contract periods."

Sources of Funds

195. During the tight money periods of 1955-1957 and 1959, the experience among individual members of the FCSFC in obtaining outside funds varied. Generally, the members of the Federated Council, who rely on bank credit as the major or exclusive source of borrowed funds, found their ability to expand, or even service their existing customers, severely restricted as the result of monetary policies imposed by the Bank of Canada through the chartered banks on all sales finance companies. The following statements are representative of the smaller members of the FCSFC:

"We had no other source of funds at that time and we actually were too small to enter the

short term money market. As our lines of credit at the bank were frozen, we obtained partial relief in the 1955-1957 period by buying out another local company which had a largely unused line of credit at the bank. / Prior to ...... our company was privately owned and used local banks together with its own capital to finance all operations. In view of the gradual and natural increase in business, the credit restrictions imposed made it extremely difficult for us to service our regular dealers and during this period we were fortunate in not losing good dealer accounts to other companies who had ample funds ......"

A company which began operations in 1950 reports:

"We have, since our company began business, been dependent on banks for most of our available funds, apart from our capital. Our sources of funds from outside the banks have been limited to individual personal loans, which we were forced to ask during the tight money period of 1959.

"Our lines of credit with the banks were reduced by approximately 40 percent in the 1959 tight money period, which greatly affected our growth at the time, and, in fact, we have been hampered since 1959 until recently

> by the banks' attitude toward finance companies in general, as regard to expansion of lines of credit."

The experience of the larger companies with access to the short term money market through their short term notes, has been different:

> "From the experience we have had in periods of tight money it would appear that a corporation with a good credit rating can obtain money in both the short and the long term markets if it is willing to pay the very high rates which become current in such periods."

One of the larger companies differentiated in the impact of tight money policies during 1955-1957 and 1959:

> "Period 1955-1957 -- Our sources of funds, which are the banks and the open market, were not too seriously affected during this period of 'tight money'.
>
> "Period 1959 -- During this period our normal sources of funds were drastically curtailed. This necessitated the negotiation of a long term Canadian dollar loan with a group of Canadian and U.S. insurance companies......"

While another company writes:

"Sufficient funds were obtainable in the short term money market to permit continued growth of the company. Credit limitations imposed upon dealers during this period were not dictated by any lack of funds but were motivated by the willingness of the company to co-operate in the government's aim to curb unwarranted expansion in the economy. In this period also the company did not attempt to acquire long term funds."

One of the companies which relies heavily on short term notes suggests that a 90 day short term rate of about 0.5 percent above the 90 day Treasury bill rate gives it a sufficient flow of short term funds. It reports that "Any increase in spread of course induces a greater flow when funds are required and vice versa".

196. Data supplied by the ten largest companies regarding their outstanding short term notes and bank loans have been computer-processed to give an indication of their behaviour during the cycles in the period 1954-1961. The results are shown in Tables 7.9 and 7.10. Short term notes outstanding show a distinct lag behind major turning points. (See Table 7.9). With more and more companies participating in the short term note market, an underlying upward trend in total notes outstanding is readily ascertainable. Thus at the three low points shown in the period under review, total outstanding notes amounted to $184 million (I/1955), $325 million

(IV/1958), and $439 million (IV/1961). The peak amount of notes outstanding in the first quarter of 1961 amounted to $512 million.

197. A different pattern appears for outstanding bank loans, as shown in Table 7.10. The series once again (as in the case of instalment paper purchases of used automobiles and other consumer goods) leads at the peaks and lags at the low points of the cycle. Bank loans outstanding at the low point of the 1960-1961 cycle were virtually identical to the amount of loans outstanding at the low of the 1953-1954 cycle; this reflects the decreasing reliance on bank credit reported by a number of the larger companies, as a result of their experience with the Canadian chartered banks in 1956-1957, and particularly during 1959.

One of the smaller member companies of the Federated Council expressed its opinion on this subject as follows:

> "We have reluctantly come to the conclusion that the banks are not desirous of lending to finance companies, mainly, we suppose, in view of the fact that they have now entered this field. This appears to be rather discriminatory against any company into whose fields they may desire to enter. In other words, we do not believe that the banks are performing the required service to the community if they begin to pick and choose lines of business regardless of whether the company

is amply financed and deserving of credit."

## Delinquency Experience

198. Because of differences in the manner in which delinquency rates in outstanding paper are reported by various companies, a comparison of their experience is difficult. The data, however, do indicate that a small percentage of all outstanding retail paper enters the delinquency stage by being 30 days or more overdue (the typical ratio of all accounts is 1 to 2 percent; dollar ratios may be higher, depending whether or not the entire balance, or only its overdue portion is counted as delinquent). Most of the Council members commenting upon their experience in delinquency ratios during periods of tight money, indicated that such periods had little, if any, effect on their collection experience.

## General Comments on Monetary Policy

199. With regard to the 1955-1957 cycle, our data indicate that there was a sharp increase in the volume of new instalment paper purchased by the sales finance industry, particularly for financing new automobiles. This was accompanied by a lengthening in repayment terms, presumably as an offsetting factor to higher prices of durable consumer goods, which kept monthly instalment payments from increasing appreciably. These developments were dictated by demand factors transmitted to the sales finance industry by its dealers, who, in turn, were dealing with a consuming public that had developed an optimistic

viewpoint of its economic prospects in the boom of the middle Fifties. However, since (1) an extension of repayment terms sharply raises the quantity of money required by a sales finance company to handle a given volume of business, (2) there is a limit to which money will be borrowed by the sales finance industry when interest rates are rising sharply, and (3) the sales finance industry operates on the principle that repayment terms in the contracts it purchases must be set in such manner that the purchaser has a net positive equity in his purchase throughout the life of the contract, many of the members of the Council report that they started adopting a cautious attitude toward acquiring new business around mid-1956, by setting stricter repayment terms on paper purchased.

200. The expansion of new instalment paper purchased reached a peak in the third quarter of 1956 for new automobile paper, shortly after the value of new passenger vehicle sales topped out in the second quarter 1956. These facts suggest that both on the demand and supply side for new instalment credit, some important changes were taking place before this matter became a discussion between the Bank of Canada and representatives of the sales finance industry.

201. The data shown here suggest that a partial reinterpretation of the behaviour of sales finance credit in this period is required. Outstanding balances of paper purchased by the companies continued to increase in the first three quarters of 1957 because repayments were still running lower than

[illegible]rowth of the monetary pressure in the boom of the middle fifties. However, since (1) an extension of repayment terms simply raises the quantity of money required by a given financing agency to handle a given volume of business, (2) there is a limit to which money will be borrowed by the sales finance industry when interest rates are rising sharply, and (3) the sales finance industry operates on the principle that repayment terms in the contracts it purchases must be set in such manner that the purchaser has a net positive equity in the purchase throughout the life of the contract, many of the members of the Council report that they stopped [illegible] a noticeable easing [illegible] in the business around mid-1955, by setting stricter repayment terms on paper purchased.

900. The expansion of new instalment paper [illegible] reached a peak in the second quarter of 1955 [illegible] report, about [illegible] the value of [illegible] paper [illegible] to the second quarter [illegible] suggest that both in the [illegible] for new instalment credit, some [illegible] were taking place [illegible] this reason [illegible] between the [illegible] and [illegible] of the sales finance industry.

901. [illegible] there [illegible]

the now-declining purchases of new instalment paper. This obscured the fact that new credit extended by the sales finance industry has started turning at about the same time the Bank of Canada became officially concerned over the matter of instalment credit. This decline appears to be related predominantly, in the case of new automobile instalment paper, to a turning point in passenger vehicle sales in the second quarter of 1956.

202. While the Bank of Canada voiced its loudest complaints about the inflationary effects of sales finance credit, and pursued its tightest monetary policy during the first eight months of 1957, it was precisely during this period that the sales finance companies were already reducing their purchases of new instalment paper, continuing the reduction in the volume of new paper purchased, which had been underway since the middle of 1956.

203. The 1959 tight money cycle must be viewed differently. The upswing in the economy, in durable consumer goods sales, and the rise in new instalment credit paper purchased did not parallel the boom of the 1955-1956 period. At the peak of the cycle, the Canadian economy was left with a considerable margin of unused resources, and unemployment at no time in the cycle declined below a seasonally adjusted level of 5.4 percent. This raises the question whether consumer durable goods spending should not have been encouraged in this period, and the tight money policy of the Bank of Canada has been amply

[illegible]

[illegible]

the series [illegible] has started turning up about the same time the level of [illegible] became officially [illegible] over [illegible] of [illegible] countries. This [illegible] appears to be [illegible] of the [illegible] of new [illegible] point in [illegible] vehicle sales in the second quarter of 1975.

101. [illegible] the [illegible] of Canada [illegible] the [illegible] the [illegible] France [illegible], and [illegible] the [illegible] monetary policy during the first eight months of 1974 [illegible] was [illegible] during this period [illegible] the other [illegible] countries [illegible] already [illegible] their [illegible] the [illegible] the recession in the volume of [illegible] had been underway [illegible] of 1974.

102. The 1970 [illegible] cycle [illegible] In the [illegible] durable consumer goods sales, and the [illegible] in the [illegible] credit [illegible] did not [illegible] the [illegible] At the end of the cycle, the Canadian economy [illegible] unemployment [illegible] level of 5.4 percent. [illegible] the question [illegible] goods [illegible] in this [illegible] and the [illegible]

criticized elsewhere. Our remarks in the present context relate entirely to the manner in which this policy was transmitted through the chartered banks. While the 1956-1957 bank credit line freezes and reductions were imparted through financial institutions which were then only marginally competing with the sales finance industry, the 1959 situation was drastically different. The wide cut in bank credit lines, coming at a time when many of the chartered banks were actively expanding their operations in areas competitive with the sales finance industry, raised a problem of business impartiality toward customers who had now become competitors.

204. The suddenness of the cuts, and their extension to large and small sales finance companies alike, is strongly questionned by a large number of the members of this Council. Having regard for the economic situation in 1959, it can be said that the wrong policies were transmitted through the wrong channels in the wrong manner.

205. Since the meetings between the Bank of Canada and representatives of the sales finance industry in late 1956, there have been no contacts between monetary authorities and the sales finance industry. While the membership of this Council does not endorse any specific methods of expression of monetary policy by the monetary authorities, it will generally welcome any statement of policy which is direct and concise in its meaning. On matters purely directed to the sales finance industry, the membership

of the Council would prefer to have direct contacts with the monetary authorities, rather than a second-hand transmission through competing financial institutions. The sales finance industry in Canada represents an important segment of the credit market. For this reason the FCSFC believes that direct contacts with the industry should be sought by the monetary authorities when major changes in monetary policy, designed to have an impact on sales finance credit, are instituted.

206. While a repetition of strong inflationary conditions, such as existed in the boom of the middle Fifties, does not appear imminent in the economic prospects now facing Canada, the FCSFC would like to point out that if, in the opinion of the monetary authorities, some forms of control over instalment credit might become necessary at some future time, this will not be accomplished to any major extent by the type of controls utilized during World War II and the Korean War period. The credit provided by this industry today accounts for about one-quarter of the funds provided by a growing number of financial institutions for similar purposes, and under such conditions the singling out of credit provided by the sales finance industry and the sectors of the economy which it serves, would not only be ineffective, but also discriminatory.

[illegible] Council would prefer to have direct contacts

with the monetary authorities, rather than a second-

hand relationship through commercial [illegible]

[illegible] influence [illegible]

[illegible] the credit market. [illegible]

[illegible] present time [illegible] contracts

[illegible]

[illegible]

[illegible] to have [illegible] credit [illegible]

are [illegible]

2.3 [illegible]

in conditions, [illegible] the form of the

[illegible] has not as yet [illegible] in the [illegible]

[illegible] would like

[illegible] of the [illegible]

[illegible] forms of credit [illegible]

[illegible]

[illegible] will not be [illegible] to any major extent by

[illegible]

[illegible]

[illegible] about [illegible] of the

[illegible] number of [illegible]

[illegible]

[illegible]

[illegible] the economy [illegible]

[illegible]

[illegible]

TABLE 1.1

FEDERATED COUNCIL OF SALES FINANCE COMPANIES

LIST OF MEMBERS - AS AT JUNE 30, 1962

Acadia Acceptance Corporation Limited

Acme Acceptance (London) Limited

Atlas Acceptance Corporation Limited

Baker Acceptance Corporation Ltd.

British Acceptance Corporation Ltd.

Canadian Acceptance Corporation Limited

Citizens Finance Company Limited

Colonial Finance Company Limited

The Commercial Acceptance Corporation Limited

Commercial Credit Corporation Limited

Corporation de Credit Adanac

Credit Acceptance Corporation Ltd.

Credit St-Laurent Inc.

Danforth Discount Limited

Delta Acceptance Corporation Limited

Domestic Finance Ltd.

General Finance Corporation Ltd.

Industrial Acceptance Corporation Limited

Laurentide Financial Corporation Ltd.

Labrador Acceptance Corporation

Linval Acceptance Corporation Limited

Middlesex Acceptance & Discount Company Limited

Norac Finance Corporation Ltd.

Pacific Finance Acceptance Company Limited

Prudential Finance Corporation Limited

Public Finance Corporation Limited

Redisco of Canada, Limited

Robertson Finance Co. Ltd.

Standard Credit Corporation

Toronto Acceptance Corporation Limited

Traders Finance Corporation Limited

Triad Acceptance Corporation Ltd.

Union Acceptance Corporation Limited

United Dominions Corporation (Canada) Limited

Western Acceptance Corporation Ltd.

TABLE 2.1

BALANCES OF SALES FINANCE CREDIT OUTSTANDING ON CONSUMER GOODS BY SOURCE AT YEAR-END, 1957-1961
MILLIONS OF DOLLARS

| | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|
| Sales finance companies | $780 | $768 | $806 | $828 | $760 |
| Small loan companies | 15 | 19 | 38 | 45 | 34 |
| Department stores * | 209 | 224 | 250 | 293 E | 319 E |
| Other retail dealers | 271 | 266 | 274 | 267 | 270 |
| Total | $1275 | $1277 | $1368 | $1433 | $1383 |
| Sales finance companies as a per cent of total | 61.2 | 60.1 | 58.9 | 57.8 | 55.0 |

* Since 1960, only total credit figure is reported for the department stores; the estimates shown here for 1960 and 1961 are based upon the relative importance of instalment paper arising from conditional sale agreements, and other deferred payment plans in total department store credit out-standing between 1957 and 1959.

E - Estimate

Source: D.B.S. and Bank of Canada.

TABLE 2.2

TOTAL ASSETS AND ASSET DISTRIBUTION AMONG PARTICIPANTS IN THE FCSFC SURVEY, END OF 1953, 1957 AND 1961, THOUSANDS OF DOLLARS

| Thousands of Dollars: | 1953 | 1957 | 1961 |
|---|---|---|---|
| Largest three companies | $701,052 | $1,030,093 | $1,164,465 |
| Next seven companies | 144,370 | 245,984 | 460,358 |
| All others | 4,875 | 23,468 | 54,233 |
| **Total:** | | | |
| Number of companies | 17 | 22 | 27 |
| Thousands of Dollars | 850,297 | 1,299,545 | 1,679,056 |
| **Percentage of Total:** | | | |
| Largest three companies | 82.45% | 79.26% | 69.35% |
| Next seven companies | 16.97 | 18.94 | 27.42 |
| All others | 0.58 | 1.80 | 3.23 |

Source: FCSFC Survey

TABLE 2.3

TOTAL OUTSTANDINGS AND DISTRIBUTION OF ALL OUTSTANDINGS (RETAIL AND WHOLESALE) AMONG PARTICIPANTS IN THE FCSFC SURVEY, END OF 1953, 1957 AND 1961.

| Thousands of Dollars: | 1953 | 1957 | 1961 |
|---|---|---|---|
| Largest three companies | $653,797 | $937,444 | $929,118 |
| Next seven companies | 139,071 | 233,784 | 358,245 |
| Other participants | 3,637 | 21,911 | 52,050 |
| **Total:** | | | |
| Number of companies | 16 | 21 | 26 |
| Thousands of dollars | 796,505 | 1,193,139 | 1,339,413 |
| D.B.S. | 701,000* | 1,269,000 | 1,340,000 |
| **Percentage of Total:** | | | |
| Largest three companies | 82.09% | 78.57% | 69.36% |
| Next seven companies | 17.45 | 19.59 | 26.75 |
| Other participants | 0.46 | 1.84 | 3.89 |

* Excluding wholesale paper; figures not available before 1956.

Note: One company participating in survey provided asset data, but no details for outstandings.

Source: FCSFC Survey

TABLE 2.4

BALANCES OF CONSUMER GOODS INSTALMENT PAPER OUTSTANDING AND DISTRIBUTION AMONG PARTICIPANTS IN THE FCSFC SURVEY, END OF 1953, 1957 AND 1961.

| Thousands of Dollars: | 1953 | 1957 | 1961 |
|---|---|---|---|
| Largest three Companies | $394,058 | $562,659 | $521,469 |
| Next seven Companies | 85,807 | 116,370 | 187,785 |
| Other Participants | 2,943 | 16,704 | 25,454 |
| Total: | | | |
| Number of Companies | 14 | 20 | 24 |
| Thousands of Dollars | 482,628 | 713,733 | 734,708 |
| D.B.S. (000$) | 516,000 | 780,000 | 760,000 |
| Percentage of Total: | | | |
| Largest three Companies | 81.65% | 78.83% | 70.98% |
| Next seven Companies | 17.74 | 18.83 | 25.56 |
| Other Participants | 0.61 | 2.34 | 3.46 |

Source: FCSFC Survey

TABLE 2.5

COMMERCIAL AND INDUSTRIAL INSTALMENT PAPER OUTSTANDING AMONG PARTICIPANTS IN THE FCSFC SURVEY, END OF 1953, 1957, and 1961.

| Thousands of Dollars: | 1953 | 1957 | 1961 |
|---|---|---|---|
| Largest three Companies | $142,252 | $215,915 | $271,365 |
| Next seven Companies | 36,370 | 56,921 | 130,117 |
| Other Participants | 20 | 741 | 6,419 |
| **Total:** | | | |
| Number of Companies | 11 | 16 | 18 |
| Thousands of Dollars | 178,642 | 273,577 | 407,901 |
| D.B.S. (000$) | 184,000 | 288,000 | 401,000 |
| **Percentage of Total:** | | | |
| Largest three Companies | 79.64% | 78.92% | 66.53% |
| Next seven Companies | 20.35 | 20.81 | 31.90 |
| Other Participants | .01 | .27 | 1.57 |

Source: FCSFC Survey

TABLE 2.6

WHOLESALE FINANCING BALANCES OUTSTANDING
AMONG PARTICIPANTS IN THE FCSFC SURVEY
END OF 1953, 1957 AND 1961.

| Thousands of Dollars: | 1953 | 1957 | 1961 |
|---|---|---|---|
| Largest three Companies | $117,487 | $176,306 | $156,699 |
| Next seven Companies | 17,497* | 28,711 | 37,769 |
| Other Participants | -- | 812 | 2,336 |
| **Total:** | | | |
| Number of Companies | 9 | 14 | 19 |
| Thousands of Dollars | 134,984 | 205,829 | 196,804 |
| D.B.S. (000$) | n/a | 202,000 | 179,000 |
| **Percentage of Total:** | | | |
| Largest three Companies | 87.04% | 85.66% | 79.63% |
| Next seven Companies | 12.96* | 13.95 | 19.18 |
| Other Participants | - | 0.39 | 1.19 |

Six companies in 1953

Source: FCSFC Survey

TABLE 2.7

RETAIL AUTOMOBILE (NEW AND USED) INSTALMENT PAPER PURCHASED BY THE TEN LARGEST SALES FINANCE COMPANIES 1953 - 1961, MILLIONS OF DOLLARS

| | FCSFC Survey | | | | |
|---|---|---|---|---|---|
| | New Cars | Used Cars | Total | Total D.B.S. | Ratio of ten largest to D.B.S Total |
| 1953 | $307.5 | $319.0 | $626.5 | $719 | 87.1 % |
| 1954 | 267.2 | 265.2 | 532.4 | 631 | 84.4 |
| 1955 | 344.1 | 285.9 | 630.0 | 759 | 83.0 |
| 1956 | 466.4 | 322.5 | 788.9 | 925 | 85.3 |
| 1957 | 434.5 | 322.8 | 757.3 | 900 | 84.1 |
| 1958 | 371.6 | 301.3 | 672.9 | 870 | 77.3 |
| 1959 | 418.9 | 296.2 | 715.1 | 903 | 79.2 |
| 1960 | 431.8 | 278.3 | 710.1 | 878 | 80.9 |
| 1961 | 375.9 | 221.8 | 597.7 | 763 | 78.3 |
| | | | | Average: | 82.1 |

TABLE 3.1

WHOLESALE PAPER PURCHASED BY THE TEN LARGEST COMPANIES AND ALL PARTICIPANTS IN THE FCSFC SURVEY, 1953 - 1961, MILLIONS OF DOLLARS

| | FCSFC: 10 Largest Companies | FCSFC: All Companies | D.B.S. |
|---|---|---|---|
| 1953 | $1212 | $1213 | |
| 1954 | 975 | 976 | |
| 1955 | 1226 | 1228 | |
| 1956 | 1383 | 1387 | $1213 |
| 1957 | 1397 | 1402 | 1185 |
| 1958 | 1286 | 1293 | 1105 |
| 1959 | 1494 | 1508 | 1307 |
| 1960 | 1559 | 1569 | 1354 |
| 1961 | 1375 | 1387 | 1230 |

Source: FCSFC Survey and D.B.S.

## TABLE 3.2

TOTAL CONSUMER GOODS SALES FINANCE PAPER PURCHASED BY THE TEN LARGEST COMPANIES, ALL PARTICIPANTS IN THE FCSFC SURVEY AND REPORTED BY D.B.S., 1953 - 1961, MILLIONS OF DOLLARS

| | FCSFC: 10 Largest Companies | FCSFC: All Companies | D.B.S. |
|---|---|---|---|
| 1953 | $752 | $761 | $719 |
| 1954 | 623 | 632 | 631 |
| 1955 | 746 | 758 | 759 |
| 1956 | 923 | 944 | 925 |
| 1957 | 874 | 889 | 900 |
| 1958 | 801 | 818 | 870 |
| 1959 | 856 | 877 | 903 |
| 1960 | 851 | 871 | 878 |
| 1961 | 722 | 757 | 763 |

Source: FCSFC Survey and D.B.S.

TABLE 3.3

CONSUMER GOODS RETAIL INSTALMENT PAPER PURCHASED BY THE TEN LARGEST SALES FINANCE COMPANIES IN CANADA
1953 - 1961, MILLIONS OF DOLLARS

| | New Auto Paper | | Used Auto Paper | | Other Consumer Goods | |
|---|---|---|---|---|---|---|
| | Paper Purchased (Millions of $) | Average per Contract ($) | Paper Purchased (Millions of $) | Average per Contract ($) | Paper Purchased (Millions of $) | Average per Contract ($) |
| 1953 | $308 | $1798 | $319 | $844 | $125 | $325 |
| 1954 | 267 | 1882 | 265 | 822 | 91 | 318 |
| 1955 | 344 | 2010 | 285 | 818 | 117 | 350 |
| 1956 | 466 | 2283 | 323 | 878 | 134 | 462 |
| 1957 | 434 | 2358 | 323 | 863 | 117 | 465 |
| 1958 | 372 | 2384 | 301 | 981 | 128 | 507 |
| 1959 | 419 | 2483 | 296 | 1034 | 141 | 535 |
| 1960 | 432 | 2449 | 278 | 1035 | 141 | 577 |
| 1961 | 376 | 2483 | 222 | 1017 | 124 | 502 |

Source: FCSFC Survey

TABLE 3.4

FINANCING* OF COMMERCIAL VEHICLES (NEW AND USED), 1953 - 1961, PAPER PURCHASED MILLIONS OF DOLLARS

| | All Participants in FCSFC Survey | D.B.S. |
|---|---|---|
| 1953 | $146 | $153 |
| 1954 | 114 | 111 |
| 1955 | 108 | 123 |
| 1956 | 134 | 165 |
| 1957 | 141 | 147 |
| 1958 | 130 | 118 |
| 1959 | 146 | 154 |
| 1960 | 159 | 154 |
| 1961 | 145 | 132 |

* Sales financing, direct loans secured by, and leasing.

Source: FCSFC Survey and D.B.S.

TABLE 3.5

FINANCING* OF OTHER COMMERCIAL AND INDUSTRIAL GOODS, 1953 - 1961, PAPER PURCHASED
MILLIONS OF DOLLARS

| | All Participants in FCSFC Survey | D.B.S. |
|---|---|---|
| 1953 | $ 69 | $ 76 |
| 1954 | 61 | 63 |
| 1955 | 77 | 95 |
| 1956 | 126 | 159 |
| 1957 | 132 | 143 |
| 1958 | 120 | 147 |
| 1959 | 173 | 201 |
| 1960 | 189 | 212 |
| 1961 | 196 | 217 |

* Sales financing, direct loans secured by, and leasing.

Source: FCSFC Survey and D.B.S.

TABLE 3.6

FINANCING* OF COMMERCIAL VEHICLES (NEW AND USED), 1953 - 1961, BALANCES OUTSTANDING AT YEAR-END, . . . . MILLIONS OF DOLLARS

| | All Participants in FCSFC Survey | D.B.S. |
|---|---|---|
| 1953 | $118 | $123 |
| 1954 | 95 | 104 |
| 1955 | 96 | 106 |
| 1956 | 122 | 138 |
| 1957 | 126 | 135 |
| 1958 | 115 | 111 |
| 1959 | 134 | 138 |
| 1960 | 148 | 151 |
| 1961 | 148 | 146 |

* Sales financing, direct loans secured by, and leasing.

Source: FCSFC Survey and D.B.S.

TABLE 3.7

FINANCING* OF OTHER COMMERCIAL AND INDUSTRIAL GOODS, 1953 - 1961, BALANCES OUTSTANDING AT YEAR-END, MILLIONS OF DOLLARS

| | All Participants in FCSFC Survey | D.B.S. |
|---|---|---|
| 1953 | $ 60 | $ 61 |
| 1954 | 57 | 60 |
| 1955 | 79 | 85 |
| 1956 | 133 | 141 |
| 1957 | 147 | 153 |
| 1958 | 136 | 146 |
| 1959 | 199 | 206 |
| 1960 | 239 | 243 |
| 1961 | 259 | 255 |

* Sales financing, direct loans secured by, and leasing.

Source: FCSFC Survey and D.B.S.

TABLE 3.8

CAPITAL LOANS TO DEALERS OUTSTANDING ON THE BOOKS OF THE TEN LARGEST SALES FINANCE COMPANIES, 1953 - 1961, THOUSANDS OF DOLLARS

| | |
|---|---|
| 1953 | $ 2,866 |
| 1954 | 3,422 |
| 1955 | 5,334 |
| 1956 | 5,813 |
| 1957 | 6,419 |
| 1958 | 7,070 |
| 1959 | 8,438 |
| 1960 | 10,968 |
| 1961 | 14,035 |

Source: FCSFC Survey

TABLE 3.9

INSURANCE COMPANY, AFFILIATES OR SUBSIDIARIES OF THE TEN LARGEST SALES FINANCE COMPANIES IN CANADA

| Sales Finance Company (Parent) | Insurance Company, Affiliate or Subsidiary |
|---|---|
| Canadian Acceptance Corporation | Service Fire Insurance Company * |
| Commercial Credit Corporation | Calvert Fire Insurance Company ** |
| Delta Acceptance Corporation | Adanac General Insurance Company of Canada |
| General Motors Acceptance Corporation of Canada | Motors Insurance Corporation, a U.S. company, wholly-owned by GMAC - New York |
| Industrial Acceptance Corporation | Merit Insurance Company |
| Laurentide Financial Corporation | Elite Insurance Company |
| Redisco of Canada | None |
| Traders Finance Corporation | Traders General Insurance |
| Union Acceptance Corporation | None |
| United Dominions Corporation (Canada) | None |

* Wholly-owned subsidiary of CAC's parent company, CIT Financial Corporation.

** Wholly-owned subsidiary of Commercial Credit Corporation's parent company, Commercial Credit Company.

Source: FCSFC Survey.

TABLE 4.1

ESTIMATED DOLLAR FINANCE CHARGE PAYABLE BY THE CONSUMER FOR FINANCING A $2,000 UNPAID BALANCE ON A NEW AUTOMOBILE REPAYABLE OVER 30 MONTHS, 1953 - 1961

| End of: Companies (ranked from lowest to highest 1961 charge): | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | $445 | $445 | $445 | $445 | $490 | $490 | $540 | $490 | $324 |
| 2 | | | | | | | 475 | 475 | 353 |
| 3 | 388 | 388 | 375-425 | 408-463 | 408-463 | 350-443 | 375-468 | 353-468 | 353-468 |
| 4 | | 368 | 380 | 380 | 440 | 440 | 470 | 353-470 | 353-470 |
| 5 | 388-413 | 388-488 | 441-488 | 441-520 | 441-520 | 441-520 | 353-520 | 353-520 | 353-520 |
| 6 | | | | | 486 | 486 | 361-486 | 361-486 | 361-486 |
| 7 | 396 | 444 | 444 | 457 | 487 | 450 | 475 | 365-475 | 365-475 |
| 8 | | | | | | 400 | 400 | 400 | 375 |
| 9 | | | | 599 | 599 | 460 | 485 | 388 | 398 |
| 10 | 375 | 375 | 350 | 350 | 350 | 400 | 400 | 400 | 400 |
| 11 | 400 | 400 | 400 | 400 | 400 | 400 | 400 | 400 | 400 |
| 12 | 400 | 400 | 400 | 400 | 400 | 400 | 400 | 400 | 400 |
| 13 | 390 | 390 | 410 | 390 | 410 | 410 | 410 | 410 | 410 |
| 14 | | | 462 | 462 | 462 | 462 | 452 | 462 | 462 |
| 15 | | | | | | | | | 468 |
| 16 | 407 | 410 | 395 | 405 | 478 | 475 | 475 | 475 | 475 |
| 17 | 426 | 426 | 426 | 426 | 426 | 441 | 462 | 475 | 475 |
| Range | 375-445 | 368-488 | 350-488 | 350-599 | 350-599 | 350-520 | 353-540 | 353-520 | 324-486 |
| Median* | 400 | 400 | 405 | 408 | 451 | 441 | 462 | 410 | 405 |
| Mode* | 400 | 400 | 400 | 400 | 400 | 400 | 400 | 353,400,475 | 353 |

* Including figures for both high and low rates for individual companies, where applicable.

## TABLE 4.2

ESTIMATED DOLLAR FINANCE CHARGE PAYABLE BY THE CONSUMER FOR FINANCING A $300 UNPAID BALANCE ON A NEW REFRIGERATOR REPAYABLE OVER 24 MONTHS, END OF 1953 - 1961

| End of: Companies (ranked from lowest to highest 1961 charge): | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | $51 | $51 | $51 | $51 | $51 | $51 | $51 | $51 | $51 |
| 2 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 |
| 3 | | | | | | | | | 54 |
| 4 | 54-58 | 54-58 | 54-72 | 54-72 | 54-72 | 54-72 | 54-72 | 54-72 | 54-72 |
| 5 | 51 | 51 | 51 | 57 | 57 | 57 | 57 | 57 | 57 |
| 6 | 55 | 55 | 58-64 | 58-64 | 58-64 | 59-65 | 59-65 | 59-65 | 59-65 |
| 7 | | | | | | | | | 60 |
| 8 | 54 | 60 | 65 | 69 | 65 | 65 | 65 | 65 | 65 |
| 9 | 60 | 60 | 60 | 67 | 67 | 67 | 65 | 65 | 65 |
| 10 | | 63 | 63 | 63 | 63 | 63 | 63 | 63 | 65 |
| 11 | | | | | | 65 | 65 | 65 | 65 |
| 12 | | | | | | 66 | 66 | 66 | 66 |
| 13 | | 57 | 70 | 70 | 70 | 70 | 70 | 70 | 70 |
| 14 | 59 | 59 | 59 | 70 | 70 | 70 | 70 | 70 | 70 |
| 15 | 72 | 72 | 72 | 72 | 72 | 72 | 72 | 72 | 72 |
| 16 | | | | | | | | 72 | 72 |
| 17 | | | | 83 | 83 | 68 | 68 | 68 | 73 |
| Range | 51-72 | 51-72 | 51-72 | 51-83 | 51-83 | 51-72 | 51-72 | 51-72 | 51-73 |
| Median | 54 1/2 | 57 1/2 | 60 | 65 1/2 | 64 1/2 | 65 | 65 | 65 | 65 |
| Mode | 54 | 51,54,60 | 51,54,72 | 54,70,72 | 54,70,72 | 65 | 65 | 65 | 65 |

## TABLE 4.3

### EXAMPLE OF FORM AND COMPUTATIONS REQUIRED TO STATE COST OF BORROWING OR BUYING ON TIME AS SIMPLE INTEREST PER ANNUM

---

### I. COMPUTATION OF EFFECTIVE AMOUNT BORROWED

| | | |
|---|---|---|
| IF GOODS OR SERVICE ARE BEING BOUGHT ON TIME, COMPLETE THIS SECTION | 1. Enter total cash price of goods, insurance premium, services and all other considerations. | $ 2,000.00 |
| | 2. Subtract trade-in allowance, quantity discounts, cash down payment and all other credits. | $ 1,000.00 |
| IF CASH LOAN, START WITH NO. 3 | 3. Enter result of item 1 less item 2; or, if cash loan, enter total cash to be lent (before deductions). | $ 1,000.00 |

4. Enter total amount of money belonging to borrower (or spouse) held on deposit or to credit of borrower (or spouse) by seller, lender, or anticipated assignee or any affiliates of seller, lender, or anticipated assignee. $ -0-

5. Enter result of item 3 less item 4. THIS IS THE EFFECTIVE AMOUNT BORROWED. $ 1,000.00

6. Enter amount of interest, time price differential, finance charge, or service charge less anticipated interest to be paid on borrower's funds in item 4. $ 66.50

7. Add item 5 and item 6. Enter result. THIS IS THE TOTAL AMOUNT TO BE PAID IN TIME PAYMENTS $ 1,066.50

### II. COMPUTATION OF EQUIVALENT EFFECTIVE TIME ITEM 7 IS TO BE OUTSTANDING.

8. Equivalent amount payable in one day. (From below) $ 211,978.80

9. Divide item 8 by item 7. Result is equivalent number of days amount borrowed is outstanding. 198.8 days

10. Divide item 9 by 365. Result is equivalent number of years and fraction of years amount borrowed is outstanding. .545 years

### III. COMPUTATION OF SIMPLE INTEREST

11. Divide item 6 by item 5. This is the dollar charge as a flat percentage. .0665

12. Divide item 11 by item 10. THIS IS THE EQUIVALENT SIMPLE INTEREST PER ANNUM. 12.20 %

TABLE 4.3 (con't)

IV. COMPUTATION OF EQUIVALENT EFFECTIVE TIME ITEM 7 IS TO BE OUTSTANDING

| a) Instalment Payment | b) Days from date of loan or delivery | | c) Amount of Instalment | d) Equivalent amount payable in one day (col. b times col. c) |
|---|---|---|---|---|
| 1 st | M | 31 | 88.88 | 2,755.28 |
| 2 nd | A | 61 | 88.88 | 5,421.68 |
| 3 rd | M | 92 | 88.88 | 8,176.96 |
| 4 th | J | 122 | 88.88 | 10,843.36 |
| 5 th | J | 153 | 88.88 | 13,598.64 |
| 6 th | A | 184 | 88.88 | 16,353.92 |
| 7 th | S | 214 | 88.88 | 19,020.32 |
| 8 th | O | 245 | 88.88 | 21,775.60 |
| 9 th | N | 275 | 88.88 | 24,442.00 |
| 10 th | D | 306 | 88.88 | 27.197.28 |
| 11 th | J | 337 | 88.88 | 29,952.56 |
| 12 th | F | 365 | 88.88 | 32,441.20 |
| | TOTALS: | | 1,066.50 | 211,978.80 |
| | | | Must equal item No.7 | Enter in item 8 above |

TABLE 4.4

WHOLESALE RATE STRUCTURE FOR NEW AUTOMOBILES REPORTED BY THE TEN LARGEST SALES FINANCE COMPANIES, YEAR END 1953 - 1961

INTEREST RATE (Per Cent)

| Company | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 5 | 5 1/2 | 5 1/2 | 6 1/2 | 6 | 5 3/4 | 7 | 6 1/2 | 6 |
| 2 | 6 | 4 1/2 | 5 | 6 | 7 | 5 1/2 | 7 1/2 | 6 | 6 |
| 3 | | 5 | 5 | 6 1/2 | 6 1/2 | 5 3/4 | 6 1/4 | 6 | 6 |
| 4 | 5 1/2 | 5 | 5 | 6 1/2 | 6 1/2 | 5 3/4 | 7 | 6 | 6 |
| 5 | | | | | 6 1/2 | 6 | 6 1/2 | 6 | 6 |
| 6 | 5 1/2 | 5 | 5 | 6 1/2 | 6 1/4 | 5 3/4 | 7 | 6 | 6 |
| 7 d | 6 | 5 | 5 | 6 1/2 | 6 1/2 | 5 3/4 | 7 | 6 | 6 |
| 8 | 5 1/2 | 5 1/2 | 5 1/2 | 6 | 6 | 5 1/4 | 7 | 6 1/2 | 6 1/2 |
| 9 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| 10 | 6 | 6 | 6 | 6 | e | e | e | e | e |

TABLE 4.4 (con't)

SERVICE CHARGE - FIRST 90 DAYS (Per Cent unless otherwise noted)

| Company | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 1/8 | 1/8[a] | 1/8[a] | 1/8[a] | 1/8[a] | 1/8[a] | 1/5[a] | 1/5 | 1/5 |
| 2[c] | $1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 2.00 | 2.00 | 2.00 | 2.00 |
| 3 | | 1/8 | 1/8 | 1/8 | 1/4 | 1/4 | 12¢[b] | 12¢[b] | 12¢[b] |
| 4 | 1/4 | 1/4 | 1/4 | 1/8 | 1/4 | 10¢[b] | 15¢[b] | 12¢[b] | 12¢[b] |
| 5 | | | | | $4.00[c] | 5.00[c] | 15¢[b] | 12¢[b] | 12¢[b] |
| 6[d] | 1/4 | 1/4 | 1/4 | 1/8 | 1/4 | 1/10 | 15¢[b] | 12¢[b] | 12¢[b] |
| 7[d] | 1/4 | 1/8 | 1/8 | 1/4 | 1/4 | 1/8 | 15¢[b] | 12¢[b] | 12¢[b] |
| 8 | 1/8 | 1/8 | 1/4 | 1/4 | 1/4 | 1/4 | $8.00[c] | 8.00[c] | 8.00[c] |
| 9 | 1/2 | 1/2 | 1/2 | 1/2 | 1/2 | 1/2 | 1/2 | 1/2 | 1/2 |
| 10 | 1 | 1 | 1 | 1 1/2 | 2 1/4 | 2 | 2 | 2 1/4 | 2 |

Notes: a - For sixty days
b - Per car per day
c - Flat charge per car
d - Data applicable to dealers with a volume of over 100 units annually.
e - Included in flat service charge.

TABLE 4.5

COMPOSITE DAILY WHOLESALE FINANCE CHARGE REPORTED BY THE TEN LARGEST SALES FINANCE COMPANIES, YEAR END, 1953 - 1961

Daily Wholesale Finance Charge on a $2,000 New Automobile (in Cents)

| Company | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 30 | 33 | 33 | 37 | 35 | 34 | 41 | 38 | 35 |
| 2 | 35 | 26 | 29 | 35 | 40 | 32 | 43 | 35 | 35 |
| 3 | | 30 | 30 | 38 | 41 | 37 | 48 | 45 | 45 |
| 4 | 35 | 33 | 33 | 38 | 40 | 42 | 48 | 45 | 45 |
| 5 | | | | | 40 | 38 | 51 | 45 | 45 |
| 6 | 35 | 33 | 33 | 38 | 39 | 33 | 53 | 45 | 45 |
| 7 | 38 | 30 | 30 | 41 | 41 | 34 | 53 | 45 | 45 |
| 8 | 33 | 33 | 35 | 38 | 38 | 34 | 47 | 44 | 44 |
| 9 | 49 | 49 | 49 | 49 | 49 | 49 | 49 | 49 | 49 |
| 10 | 55 | 55 | 55 | 55 | 50 | 44 | 44 | 50 | 44 |
| Range | 30-55 | 26-55 | 29-55 | 35-55 | 35-50 | 32-49 | 41-53 | 35-50 | 35-49 |
| Median | 35 | 33 | 30,33 | 38 | 40 | 35 1/2 | 47 1/2 | 45 | 45 |
| Mode | 35 | 33 | 33 | 38 | 40 | 34 | 53 | 45 | 45 |

TABLE 5.1

CONSUMER CREDIT OUTSTANDING IN CANADA
END OF YEAR, 1951-1961

(MILLIONS OF DOLLARS)

| Year | Sales Finance Companies | Small Loan Companies | Department Stores | Other Retail Dealers * | Chartered Banks - All Other Personal Loans | Credit Unions | Other Credit ** | Total |
|---|---|---|---|---|---|---|---|---|
| 1951 | 186 | 114 | 78 | 328 | 204 | 76 | 430 | 1416 |
| 1952 | 373 | 148 | 141 | 411 | 242 | 94 | 477 | 1886 |
| 1953 | 516 | 176 | 167 | 457 | 308 | 129 | 502 | 2255 |
| 1954 | 492 | 215 | 186 | 499 | 351 | 151 | 500 | 2394 |
| 1955 | 599 | 279 | 226 | 524 | 441 | 174 | 641 | 2884 |
| 1956 | 756 | 356 | 244 | 554 | 435 | 226 | 658 | 3229 |
| 1957 | 780 | 362 | 262 | 564 | 420 | 258 | 645 | 3291 |
| 1958 | 768 | 401 | 282 | 579 | 553 | 320 | 697 | 3600 |
| 1959 | 806 | 484 | 314 | 601 | 719 | 397 | 717 | 4038 |
| 1960 | 828 | 549 | 368 | 592 | 857 | 425 | 743 | 4362 |
| 1961 | 760 | 583 | 401 | 605 | 1030 | 425 E | 826 | 4630 |

TABLE 5.1 (con't)

(PERCENTAGE DISTRIBUTION)

| Year | Sales Finance Companies | Small Loan Companies | Department Stores | Other Retail Dealers* | Chartered Banks - All Other Personal Loans | Credit Unions | Other Credit** | Total |
|---|---|---|---|---|---|---|---|---|
| 1951 | 13 | 8.0 | 5.5 | 23.2 | 14.4 | 5.4 | 30.4 | 100.0 |
| 1952 | 19.8 | 7.8 | 7.5 | 21.8 | 12.8 | 5.0 | 25.3 | 100.0 |
| 1953 | 22.9 | 7.8 | 7.4 | 20.3 | 13.7 | 5.7 | 22.2 | 100.0 |
| 1954 | 20.5 | 9.0 | 7.8 | 20.8 | 14.7 | 6.3 | 20.9 | 100.0 |
| 1955 | 20.8 | 9.7 | 7.9 | 18.2 | 15.3 | 6.0 | 22.1 | 100.0 |
| 1956 | 23.4 | 11.0 | 7.6 | 17.1 | 13.5 | 7.0 | 20.4 | 100.0 |
| 1957 | 23.7 | 11.0 | 8.0 | 17.1 | 12.8 | 7.8 | 19.6 | 100.0 |
| 1958 | 21.3 | 11.1 | 7.8 | 16.1 | 15.4 | 8.9 | 19.4 | 100.0 |
| 1959 | 20.0 | 12.0 | 7.8 | 14.9 | 17.8 | 9.8 | 17.8 | 100.0 |
| 1960 | 19.0 | 12.6 | 8.3 | 13.7 | 19.6 | 9.7 | 17.1 | 100.0 |
| 1961 | 16.4 | 12.6 | 8.7 | 13.1 | 22.2 | 9.2 | 17.8 | 100.0 |

* Excluding charge accounts of motor vehicle dealers whose credit is extended mainly to business rather than consumers.

** Includes: Life insurance company policy loans, Quebec Savings Banks loans not secured by mortgages; balances outstanding on oil company credit cards since the end of 1955; chartered banks fully secured loans and home improvement loans.

E - Not available at time of compilation; 1960 figure used.

Note: Details may not add to totals because of rounding.

Source: Dominion Bureau of Statistics and Bank of Canada.

TABLE 5.2

INDUSTRIAL DEVELOPMENT BANK
DISBURSEMENTS, LOANS OUTSTANDING AND NUMBER OF CUSTOMERS

| Fiscal Years ending September 30 | Disbursements (Millions of $) | Loans Outstanding (Millions of $) | Number of Customers on Books |
|---|---|---|---|
| 1951 | $12.3 | $ 29.2 | 551 |
| 1952 | 8.9 | 33.4 | 584 |
| 1953 | 11.3 | 38.9 | 633 |
| 1954 | 11.5 | 42.1 | 661 |
| 1955 | 12.7 | 44.0 | 693 |
| 1956 | 20.1 | 52.2 | 820 |
| 1957 | 32.6 | 71.9 | 1022 |
| 1958 | 31.2 | 88.8 | 1322 |
| 1959 | 29.3 | 96.9 | 1609 |
| 1960 | 29.7 | 103.1 | 1967 |
| 1961 | 47.5 | 123.3 | 2769 |
| Oct. 1961 | 5.5 | 126.4 | 2848 |
| Nov. 1961 | 5.8 | 130.0 | 2987 |
| Dec. 1961 | 5.7 | 133.4 | 3086 |
| Jan. 1962 | 5.9 | 136.3 | 3178 |
| Feb. 1962 | 6.2 | 140.6 | 3262 |
| Mar. 1962 | 7.4 | 144.4 | 3367 |
| Apr. 1962 | 7.2 | 149.3 | 3480 |

TABLE 6.1

BALANCE SHEET DATA OF THE TEN LARGEST SALES FINANCE COMPANIES
FISCAL YEAR END, 1953 - 1961, THOUSANDS OF DOLLARS

| ASSETS | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 26,944 | 27,488 | 19,836 | 27,829 | 42,182 | 32,950 | 40,894 | 31,104 | 31,608 |
| Marketable securities | | | | 26 | 106 | 16,219 | 85,024 | 95,005 | 71,303 |
| Notes and accounts receivable: | | | | | | | | | |
| Retail | 654,503 | 602,743 | 708,220 | 940,879 | 967,246 | 916,733 | 1,029,269 | 1,111,270 | 1,060,551 |
| Wholesale | 135,216 | 101,375 | 145,786 | 199,341 | 205,086 | 198,840 | 201,799 | 237,032 | 195,496 |
| Real estate loans | 10 | 22 | 13 | 25 | | 29 | 139 | 99 | 106 |
| Capital loans to dealers | 2,866 | 3,422 | 5,334 | 5,813 | 6,419 | 7,070 | 8,438 | 10,968 | 14,035 |
| Sundry accounts receivable | 2,090 | 3,719 | 3,585 | 3,701 | 4,942 | 3,684 | 4,733 | 6,876 | 5,177 |
| Total receivables | 794,685 | 711,281 | 862,938 | 1,149,759 | 1,183,693 | 1,126,356 | 1,244,378 | 1,366,245 | 1,275,365 |
| Less: Provision for doubtful accounts | 8,384 | 8,079 | 9,210 | 10,981 | 11,960 | 12,060 | 13,208 | 14,064 | 14,826 |
| Net receivables | 786,301 | 703,202 | 853,728 | 1,138,778 | 1,171,733 | 1,114,296 | 1,231,170 | 1,352,181 | 1,260,539 |

TABLE 6.1 (con't)

| | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| Investments in: | | | | | | | | | |
| Subsidiary companies | 18,240 | 25,613 | 31,842 | 47,266 | 56,017 | 59,468 | 88,773 | 128,828 | 192,754 |
| Associated companies | 1 | 1 | 0 | 650 | 598 | 621 | 1,714 | 4,851 | 9,423 |
| Investment in fixed assets to produce rental income | | | 232 | 373 | 315 | 387 | 364 | 345 | 1,095 |
| Fixed assets | 3,283 | 3,210 | 3,453 | 4,160 | 4,555 | 4,642 | 4,970 | 4,942 | 5,186 |
| Leasehold improvements | 256 | 339 | 402 | 431 | 519 | 583 | 604 | 666 | 784 |
| Unamortized cost of acquisition of borrowed money | 2,389 | 2,630 | 2,386 | 3,517 | 7,229 | 4,904 | 6,811 | 7,453 | 6,937 |
| Other assets | 1,209 | 1,492 | 1,651 | 1,007 | 2,612 | 2,713 | 2,751 | 2,614 | 2,328 |
| TOTAL ASSETS | 838,523 | 763,975 | 913,530 | 1,224,037 | 1,285,866 | 1,236,783 | 1,463,075 | 1,627,989 | 1,581,957 |

TABLE 6.1 (con't)

| LIABILITIES | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| Bank borrowings | 191,124 | 103,916 | 172,419 | 242,576 | 155,855 | 182,269 | 194,359 | 163,340 | 109,031 |
| Other demand loans | | | | | 681 | 470 | 3,852 | 996 | 425 |
| Short term notes | 211,976 | 167,352 | 237,245 | 330,753 | 409,333 | 295,516 | 424,227 | 489,132 | 409,043 |
| Long term notes - more than 2 years to maturity when issued | 139,847 | 156,216 | 155,790 | 198,323 | 227,328 | 231,448 | 276,204 | 336,019 | 375,880 |
| Bonds and debentures | 104,117 | 128,756 | 124,991 | 153.856 | 192,869 | 199,516 | 208,530 | 250,840 | 264,534 |
| Total debt | 647,064 | 556,240 | 690,445 | 925,508 | 986,066 | 909,219 | 1,107,172 | 1,240,327 | 1,158,913 |
| Accounts payable | 28,470 | 30,407 | 22,649 | 41,869 | 32,077 | 38,326 | 32,509 | 39,874 | 58,530 |
| Dealers' credit balances | 32,970 | 33,855 | 36,211 | 43,485 | 46,243 | 44,411 | 44,401 | 42,457 | 39,538 |
| Advances from parent or associated companies | 5,560 | 5,000 | | 6,102 | | | 10,000 | 10,000 | 11,000 |
| Other liabilities | 157 | 123 | 128 | 209 | 2,278 | 1,212 | 1,363 | 1,428 | 1,746 |
| Unearned service charges | 40,761 | 40,401 | 50,356 | 68,800 | 76,595 | 78,273 | 92,824 | 104,050 | 98,129 |

TABLE 6.1 (con't)

| | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| Shareholders' equity | | | | | | | | | |
| Preferred stock | 17,989 | 18,651 | 19,867 | 30,167 | 29,650 | 34,892 | 35,138 | 34,551 | 40,014 |
| Common stock | 37,194 | 46,179 | 56,520 | 64,252 | 62,183 | 65,487 | 68,304 | 74,104 | 83,708 |
| Capital surplus | 354 | 402 | -- | 238 | 679 | 1,205 | 1,520 | 1,941 | 2,364 |
| Earned surplus | 28,104 | 32,717 | 37,354 | 43.407 | 50,095 | 63,508 | 69,344 | 78,536 | 87,020 |
| Contingent reserves | | | | | | 250 | 500 | 721 | 995 |
| TOTAL LIABILITIES AND CAPITAL | 838,623 | 763,975 | 913,530 | 1,224,037 | 1,285,866 | 1,236,783 | 1,463,075 | 1,627,989 | 1,581,957 |

TABLE 6.2

BALANCE SHEET DATA OF THE TEN LARGEST SALES FINANCE COMPANIES
FISCAL YEAR END, 1953 - 1961, PERCENTAGE DISTRIBUTION

| ASSETS | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| Cash | 3.21 | 3.60 | 2.17 | 2.27 | 3.28 | 2,66 | 2.80 | 1.91 | 2.00 |
| Marketable securities | | | | | .01 | 1.31 | 5.81 | 5.84 | 4.50 |
| Notes and accounts receivable: | | | | | | | | | |
| Retail | 78.04 | 78.89 | 77.53 | 76.87 | 75.22 | 74.12 | 70.35 | 68.26 | 67.04 |
| Wholesale | 16.12 | 13.27 | 15.96 | 16.29 | 15.95 | 16.08 | 13.79 | 14.56 | 12.36 |
| Real estate loans | | | | | | | .01 | .01 | .01 |
| Capital loans to dealers | .34 | .45 | .58 | .48 | .50 | .57 | .58 | .67 | .89 |
| Sundry accounts receivable | .25 | .49 | .39 | .30 | .39 | .30 | .32 | .42 | .33 |
| Total receivables | 94.76 | 93.10 | 94.46 | 93.94 | 92.06 | 91.07 | 85.05 | 83.92 | 80.63 |
| Less: Provision for doubtful accounts | 1.00 | 1.06 | 1.01 | .90 | .93 | .98 | .90 | .86 | .94 |
| Net receivables | 93.76 | 92.04 | 93,45 | 93.04 | 91.13 | 90.09 | 84.15 | 83.06 | 79.69 |

TABLE 6.2 (con't)

| | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| Investments in: | | | | | | | | | |
| Subsidiary companies | 2.18 | 3.35 | 3,49 | 3.86 | 4.36 | 4.81 | 6.07 | 7.91 | 12.18 |
| Associated companies | | | | .05 | .05 | .05 | .12 | .30 | .59 |
| Investment in fixed assets to produce rental income | | | .03 | .03 | .03 | .03 | .02 | .02 | .07 |
| Fixed assets | .39 | .42 | .38 | .34 | .35 | .38 | .34 | .30 | .33 |
| Leasehold improvements | .03 | .04 | .04 | .04 | .04 | .05 | .04 | .04 | .05 |
| Unamortized cost of acquisition of borrowed money | .29 | .35 | .26 | .29 | .56 | .40 | .46 | .46 | .44 |
| Other assets | .15 | .20 | .18 | .08 | .20 | .22 | .19 | .16 | .15 |
| TOTAL ASSETS | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

TABLE 6.2 (con't)

| LIABILITIES | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| Bank borrowings | 22.79 | 13.60 | 18.87 | 19.82 | 12.12 | 14.74 | 13.29 | 10.03 | 6.89 |
| Other demand loans | | | | | .05 | .04 | .26 | .06 | .03 |
| Short term notes | 25.28 | 21.91 | 25.97 | 27.02 | 31.83 | 23.89 | 29.00 | 30.05 | 25.86 |
| Long term notes - more than 2 years to maturity when issued | 16.68 | 20.45 | 17.05 | 16.20 | 17.68 | 18.71 | 18.88 | 20.64 | 23.76 |
| Bonds and debentures | 12.41 | 16.85 | 13.68 | 12.57 | 15.00 | 16.13 | 14.25 | 15.41 | 16.72 |
| Total debt | 77.16 | 72.81 | 75.57 | 75.61 | 76.68 | 73.51 | 75.68 | 76.19 | 73.26 |
| Accounts payable | 3.39 | 3.98 | 2.48 | 3.42 | 2.49 | 3.10 | 2.22 | 2.45 | 3.70 |
| Dealers'credit balances | 3.93 | 4.43 | 3.96 | 3.55 | 3.60 | 3.59 | 3.04 | 2.61 | 2.50 |
| Advances from parent or associated companies | .66 | .65 | -- | .50 | -- | -- | .68 | .61 | .70 |
| Other liabilities | .02 | .02 | .02 | .02 | .18 | .10 | .09 | .09 | .11 |
| Unearned service charge | 4.86 | 5.29 | 5.51 | 5.62 | 5.96 | 6.33 | 6.35 | 6.39 | 6.20 |
| TOTAL LIABILITIES | 92.02 | 87.18 | 87.54 | 88.72 | 88.91 | 86.63 | 88.06 | 88.34 | 86.47 |

## TABLE 6.2 (con't)

| SHAREHOLDERS' EQUITY | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| Preferred stock | 2.15 | 2.44 | 2.18 | 2.46 | 2.31 | 2.82 | 2.40 | 2.12 | 2.53 |
| Common stock | 4.44 | 6.05 | 6.19 | 5.25 | 4.84 | 5.30 | 4.67 | 4.55 | 5.29 |
| Capital surplus | .04 | .05 | -- | .02 | .05 | .10 | .10 | .12 | .15 |
| Earned surplus | 3.35 | 4.28 | 4.09 | 3.55 | 3.89 | 5.13 | 4.74 | 4.82 | 5.50 |
| Contingent reserves | -- | -- | -- | -- | -- | .02 | .03 | .05 | .06 |
| Total shareholders' equity | 9.98 | 12.82 | 14.46 | 11.28 | 11.09 | 13.37 | 11.94 | 11.66 | 13.57 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

TABLE 6.3

CAPITAL STRUCTURE OF THE TEN LARGEST SALES FINANCE COMPANIES, 1953 - 1961, MILLIONS OF DOLLARS

| | 1953 | | 1954 | | 1955 | | 1956 | | 1957 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mil.$ | % | Mil.$ | % | Mil.$ | % | Mil.$ | % | Mil.$ | % |
| Bank demand loans* | $191.1 | 26.2 | $103.9 | 15.9 | $172.4 | 21.4 | $242.6 | 22.8 | $156.5 | 13.9 |
| Short term notes | 212.0 | 29.0 | 167.4 | 25.6 | 237.2 | 29.5 | 330.8 | 31.1 | 409.3 | 36.3 |
| Total short term debt | 403.1 | 55.2 | 271.3 | 41.5 | 309.6 | 50.9 | 573.4 | 53.9 | 565.8 | 50.2 |
| Long term notes | 139.8 | 19.1 | 156.2 | 23.9 | 155.8 | 19.4 | 198.3 | 18.6 | 227.3 | 20.1 |
| Debentures | 104.1 | 14.2 | 128.8 | 19.7 | 125.0 | 15.5 | 153.9 | 14.5 | 192.9 | 17.1 |
| Total long term debt | 243.9 | 33.3 | 285.0 | 43.6 | 280.8 | 34.9 | 352.2 | 33.1 | 420.2 | 37.2 |
| Total debt | 647.0 | 88.5 | 556.3 | 85.0 | 690.4 | 85.8 | 925.6 | 87.0 | 986.0 | 87.4 |
| Shareholders' equity: | | | | | | | | | | |
| Preferred stock | 18.0 | 2.5 | 18.7 | 2.8 | 20.0 | 2.5 | 30.2 | 2.8 | 29.7 | 2.6 |
| Common stock | 37.2 | 5.1 | 46.2 | 7.1 | 56.5 | 7.0 | 64.3 | 6.0 | 62.2 | 5.5 |
| Capital surplus | 0.4 | 0.1 | 0.4 | 0.1 | | | 0.2 | | 0.7 | 0.1 |
| Earned surplus | 28.1 | 3.8 | 32.7 | 5.0 | 37.4 | 4.6 | 43.4 | 4.1 | 50.1 | 4.4 |
| Contingent reserves | | | | | | | | | | |
| Total equity | 83.7 | 11.5 | 98.0 | 15.0 | 113.9 | 14.2 | 138.1 | 13.0 | 142.7 | 12.6 |
| TOTAL CAPITAL | 730.7 | 100.0 | 654.3 | 100.0 | 804.3 | 100.0 | 1,063.7 | 100.0 | 1,128.7 | 100.0 |

*Including other demand loans (See Table 6.1).
Details may not add to totals because of rounding.

TABLE 6.3 (con't)

| | 1958 | | 1959 | | 1960 | | 1961 | |
|---|---|---|---|---|---|---|---|---|
| | Mil.$ | % | Mil.$ | % | Mil.$ | % | Mil.$ | % |
| Bank demand loans* | $182.7 | 17.0 | $198.2 | 15.5 | $164.3 | 11.5 | $109.5 | 8.0 |
| Short term notes | 295.5 | 27.5 | 424.2 | 33.1 | 489.1 | 34.2 | 409.0 | 29.8 |
| Total short term debt | 478.2 | 44.5 | 622.4 | 48.6 | 653.4 | 45.7 | 518.5 | 37.8 |
| Long term notes | 231.4 | 21.5 | 276.2 | 21.5 | 336.0 | 23.5 | 375.9 | 27.4 |
| Debentures | 199.5 | 18.6 | 208.5 | 16.3 | 250.8 | 17.5 | 264.5 | 19.3 |
| Total long term debt | 430.9 | 40.1 | 484.7 | 37.8 | 586.8 | 41.0 | 640.4 | 46.7 |
| Total debt | 909.1 | 84.6 | 1,107.1 | 86.4 | 1,240.2 | 86.7 | 1,158.9 | 84.4 |
| Shareholders' equity: | | | | | | | | |
| Preferred stock | 34.9 | 3.2 | 35.1 | 2.7 | 34.6 | 2.4 | 40.0 | 2.9 |
| Common stock | 65.5 | 6.1 | 68.3 | 5.3 | 74.1 | 5.2 | 83.7 | 6.1 |
| Capital surplus | 1.2 | 0.1 | 1.5 | 0.1 | 1.9 | 0.1 | 2.4 | 0.2 |
| Earned surplus | 63.5 | 5.9 | 69.3 | 5.4 | 78.5 | 5.5 | 87.0 | 6.3 |
| Contingent reserves | 0.3 | — | 0.5 | — | 0.7 | — | 1.0 | 0.1 |
| Total equity | 165.4 | 15.4 | 174.7 | 13.6 | 189.8 | 13.3 | 214.1 | 15.6 |
| TOTAL CAPITAL | 1,074.5 | 100.0 | 1,281.8 | 100.0 | 1,430.0 | 100.0 | 1,373.0 | 100.0 |

* Including other demand loans (See Table 6.1).
Details may not add to totals because of rounding.

TABLE 6.4

SOURCES AND DISPOSITION OF FUNDS OF THE TEN LARGEST SALES FINANCE COMPANIES, 1954 - 1961, MILLIONS OF DOLLARS

| Sources (or Disposition): | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | Total 1954-1961 |
|---|---|---|---|---|---|---|---|---|---|
| Cash | (1) | 8 | (8) | (14) | 9 | (8) | 10 | (1) | (5) |
| Marketable securities | | | | | (16) | (69) | (10) | 24 | (71) |
| Notes receivable: | | | | | | | | | |
| Retail | 52 | (106) | (233) | (26) | 51 | (113) | (82) | 51 | (406) |
| Wholesale | 34 | (44) | (53) | (6) | 6 | (3) | (35) | 42 | (60) |
| Real estate loans (a) | | | | | | | | | |
| Capital loans to dealers | (1) | (2) | (a) | (1) | (1) | (1) | (3) | (3) | (11) |
| Sundry accounts receivable | (2) | a | a | (1) | 1 | (1) | (2) | 2 | (3) |
| Total notes receivable | 83 | (152) | (286) | (34) | 57 | (118) | (122) | 92 | (480) |
| Investment in subsidiary companies | (7) | (6) | (15) | (9) | (3) | (29) | (40) | (64) | (175) |
| Advances to affiliated companies | a | a | (1) | a | a | (1) | (3) | (5) | (9) |

TABLE 6.4 (con't)

| Sources (or Disposition): | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | Total 1954-1961 |
|---|---|---|---|---|---|---|---|---|---|
| All other assets | | | (2) | (6) | 2 | (2) | (1) | | (9) |
| Provision for doubtful accounts | a | 1 | 2 | 1 | a | 1 | 1 | 1 | 6 |
| Bank borrowings | (87) | 69 | 70 | (87) | 26 | 12 | (31) | (54) | (82) |
| Other demand loans | | | | 1 | a | 3 | (3) | 1 | 2 |
| Short term notes | (45) | 70 | 93 | 78 | (114) | 129 | 65 | (80) | 197 |
| Long term notes | 16 | a | 42 | 29 | 4 | 45 | 60 | 40 | 236 |
| Bonds and debentures | 25 | (4) | 29 | 39 | 7 | 9 | 42 | 14 | 160 |
| Accounts payable | 2 | (8) | 19 | (10) | 6 | (6) | 7 | 19 | 30 |
| Dealers' credit balances | 1 | 2 | 7 | 3 | (2) | a | (2) | (3) | 6 |
| Advances from parent companies | (1) | (5) | 6 | (6) | -- | 10 | -- | -- | 5 |
| Other liabilities | a | a | a | 2 | (1) | a | a | a | 1 |

TABLE 6.4 (con't)

| Sources (or Disposition): | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | Total 1954-1961 |
|---|---|---|---|---|---|---|---|---|---|
| Unearned service charges | a | 10 | 18 | 8 | 2 | 15 | 11 | (6) | 57 |
| Preferred stock | 1 | 1 | 10 | (1) | 5 | a | (1) | 4 | 19 |
| Common stock | 8 | 11 | 6 | 2 | 3 | 3 | 6 | 10 | 49 |
| Capital surplus | a | a | a | a | 1 | a | a | 1 | 2 |
| Earned surplus | 5 | 5 | 6 | 7 | 13 | 6 | 9 | 9 | 59 |
| Contingent reserves | | | | | a | a | a | a | 1 |

Notes:
a - less than $500,000.
Individual items will not add to totals because of rounding. Columns may not add to zero because of rounding.

TABLE 6.4 (con't)

NET SOURCES AND DISPOSITION OF FUNDS OF THE TEN LARGEST SALES FINANCE COMPANIES, DECEMBER 31, 1953 - DECEMBER 31, 1961

| Sources of Funds: | Millions of $ | % of Total |
|---|---|---|
| Long term notes | $236 | 28.4% |
| Short term notes | 197 | 23.7 |
| Bonds and debentures | 160 | 19.3 |
| Total debt | 593 | 71.4 |
| | | |
| Provision for doubtful accounts | 6 | 0.7 |
| Accounts payable | 30 | 3.6 |
| Dealers' credit balances | 6 | 0.7 |
| Advances from parent companies | 5 | 0.6 |
| Unearned service charges | 57 | 6.9 |
| Other liabilities | 1 | 0.1 |
| | | |
| Preferred stock | 22 | 2.6 |
| Common stock | 49 | 5.9 |
| Capital surplus | 2 | 0.2 |
| Earned surplus | 59 | 7.1 |
| Contingent reserves | 1 | 0.1 |
| Total equity | 133 | 100.0 |
| | | |
| GRAND TOTAL: | $831 | 100.0% |

| Disposition of Funds: | Millions of $ | % of Total |
|---|---|---|
| Cash | $ 5 | 0.6% |
| Marketable securities | 71 | 8.5 |
| Notes receivable: | | |
| Retail | 406 | 48.8 |
| Wholesale | 60 | 7.2 |
| Capital loans to dealers | 11 | 1.3 |
| Sundry accounts receivable | 3 | 0.4 |
| Total notes receivable | 480 | 57.7 |
| | | |
| Investment in subsidiary companies | 175 | 21.1 |
| Advances to affiliated companies | 9 | 1.1 |
| All other assets | 9 | 1.1 |
| | | |
| Bank borrowings | 82 | 9.9 |
| | | |
| GRAND TOTAL: | $831 | 100.0% |

TABLE 6.5

LINES AND UTILIZATION OF BANK CREDIT BY THE TEN LARGEST SALES FINANCE COMPANIES, QUARTERLY 1953 - 1961, MILLIONS OF DOLLARS

| | 1953 | | | | 1954 | | | | 1955 | | | | 1956 | | | | 1957 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| End of Quarter: | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| Authorized | 249 | 251 | 270 | 279 | 279 | 293 | 293 | 294 | 301 | 324 | 332 | 334 | 317 | 312 | 312 | 279 | 265 | 265 | 266 | 267 |
| Utilized | 136 | 199 | 189 | 179 | 131 | 102 | 84 | 96 | 94 | 147 | 143 | 173 | 149 | 216 | 184 | 227 | 201 | 201 | 183 | 139 |
| Unused | 113 | 52 | 81 | 100 | 148 | 191 | 209 | 198 | 207 | 177 | 189 | 160 | 168 | 96 | 128 | 52 | 64 | 64 | 83 | 128 |

| | 1958 | | | | 1959 | | | | 1960 | | | | 1961 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| End of Quarter: | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| Authorized | 334 | 349 | 382 | 378 | 388 | 282 | 203 | 198 | 194 | 195 | 188 | 210 | 214 | 229 | 231 | 233 |
| Utilized | 131 | 125 | 102 | 162 | 186 | 145 | 175 | 184 | 177 | 170 | 129 | 156 | 109 | 102 | 77 | 96 |
| Unused | 203 | 224 | 280 | 216 | 202 | 137 | 28 | 14 | 17 | 25 | 59 | 54 | 105 | 127 | 154 | 137 |

Note: The "Utilized" bank credit figures shown here at year-end will not correspond to those appearing for outstanding bank borrowings on the balance sheets in Table 6.1, because the latter are the total at the end of the fiscal years of the companies.

TABLE 6.6

INTEREST RATE ON CHARTERED BANK LOANS REPORTED BY THE TEN LARGEST SALES FINANCE COMPANIES, END OF QUARTER, 1953 - 1961

| Number of Companies Reporting Bank Interest Rate of: | 1953 | | | | 1954 | | | | 1955 | | | | 1956 | | | | 1957 | | | | 1958 | | | | 1959 | | | | 1960 | | | | 1961 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| 4 % | | | | | | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 1/2 % | 8 | 8 | 8 | 3 | 2 | 2 | 8 | 8 | 8 | 8 | 8 | 9 | 9 | | | | | | | | | | | | | | | | | | | | | | | |
| 5 % | | | | 5 | 6 | 6 | 1 | 1 | 1 | 1 | 1 | | | 9 | | | | | | | | | | | | | | | | | | | | | | |
| 5 1/4% | | | | | | | | | | | | | | | 10 | | | | | | 10 | 10 | 10 | 10 | 1 | | | | | | | | | | | |
| 5 1/2 % | | | | | | | | | | | | | | | | 10 | 10 | 10 | 1 | 9 | | | | | 9 | | | | | | | | | | | 10 |
| 5 3/4 % | | | | | | | | | | | | | | | | | | | 9 | 1 | | | | | | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | |
| Number of Companies Not Reporting: | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | | | | | | | | | | | | | | | | | | | | | |

## TABLE 6.7

SHORT TERM NOTE PLACEMENTS BY THE TEN LARGEST SALES FINANCE COMPANIES, 1953 - 1961, MILLIONS OF DOLLARS

| Year End | Total Short Term Notes Placed During Year | Direct Placements | Market Placements | Total Outstanding |
|---|---|---|---|---|
| 1953 | $ 593 | * | * | $198 |
| 1954 | 460 | * | * | 151 |
| 1955 | 384 | $ 85 | $ 299 | 228 |
| 1956 | 803 | 126 | 677 | 314 |
| 1957 | 1573 | 159 | 1414 | 387 |
| 1958 | 796 | 112 | 684 | 279 |
| 1959 | 1431 | 110 | 1321 | 392 |
| 1960 | 1892 | 504 | 1388 | 413 |
| 1961 | 1450 | 324 | 1126 | 323 |

* Not available

TABLE 6.8-A

INTEREST RATES PAID BY THE TEN LARGEST SALES FINANCE COMPANIES ON 30 - DAY SHORT TERM PAPER, QUARTERLY, 1953 - 1961

| End of | 1953 | | | | 1954 | | | | 1955 | | | | 1956 | | | | 1957 | | | | 1958 | | | | 1959 | | | | 1960 | | | | 1961 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Quarter: | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| 1 1/2 % | | | | | | | 1 | 1 | 4 | 4 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 3/4 | | | | | | 1 | | 2 | | 1 | 3 | | | | | | | | | | | | 1 | | | | | | | | | | | | | |
| 2 | | | | | | | 2 | 2 | 1 | | 2 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 1/4 | | | | | 1 | 2 | | | | 1 | 1 | | | | | | | | | | | 1 | | | | | | | | | 4 | | | | | |
| 2 1/2 | | | | | | | 1 | | | | | | 1 | | | | | | | | | 5 | 6 | | | | | | | | 5 | | | | | |
| 2 5/8 | | | | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | | | | | | | |
| 2 3/4 | 1 | 1 | 1 | 1 | 2 | | | | | | | 6 | 5 | | | | | | | | 4 | 1 | 1 | | | | | | | | | | | 7 | 2 | |
| 3 | 2 | 2 | 2 | 3 | 1 | 1 | 1 | 1 | 1 | | | 1 | 1 | | | | | | | | 1 | 1 | 1 | | | | | | | 1 | | | | 2 | 6 | 3 |
| 3 1/4 | | | | | | | | | | | | | | | | | | | | | 3 | | | 7 | | | | | | | | 1 | 8 | | 1 | 6 |
| 3 3/8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 | |
| 3 1/2 | | | | | | | | | | | | | | 6 | | | | | | | | | | 2 | | | | | 3 | 2 | | 4 | 1 | | | |
| 3 3/4 | | | | | | | | | | | | | | 1 | 6 | | | | | 1 | | | | | 1 | | | | 3 | 5 | | 2 | | | | |
| 4 | | | | | | | | | | | | | | | 1 | | | | | | 1 | | | | 5 | | | | 3 | 1 | | 2 | | | | |
| 4 1/8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 | | | |
| 4 1/4 | | | | | | | | | | | | | | 1 | 1 | | | | | 5 | | | | | 1 | | | | | | | | | | | |
| 4 1/2 | | | | | | | | | | | | | | | | | | 1 | | | | | | | 1 | | | | | | | | | | | |
| 4 3/4 | | | | | | | | | | | | | | | | 1 | | | | | | | | | 1 | | | | | | | | | | | |
| 5 | | | | | | | | | | | | | | | | 5 | 5 | 4 | 6 | 1 | | | | | | 2 | | | | | | | | | | |
| 5 1/4 | | | | | | | | | | | | | | | | 2 | 2 | 2 | 1 | | | | | | | 2 | | 6 | | | | | | | | |
| 5 1/2 | | | | | | | | | | | | | | | | | 1 | 1 | | | | | | | | 5 | 2 | 3 | | | | | | | | |
| 5 3/4 | | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | | | | | | | | | |
| 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | 6 | | | | | | | | | |
| 6 1/4 | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | 1 | | | | | | | | | |
| Number of Companies Reporting: | 3 | 3 | 3 | 4 | 4 | 4 | 5 | 6 | 6 | 6 | 7 | 7 | 7 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 10 | 9 | 10 | 9 |

TABLE 6.8-B

INTEREST RATES PAID BY THE TEN LARGEST SALES FINANCE COMPANIES ON 60 - DAY SHORT TERM PAPER, QUARTERLY, 1953 - 1961

| End of | 1953 | | | | 1954 | | | | 1955 | | | | 1956 | | | | 1957 | | | | 1958 | | | | 1959 | | | | 1960 | | | | 1961 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Quarter: | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| 1 1/2 % | | | | | | | 1 | 1 | 4 | 4 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 3/4 | | | | | | 1 | | 2 | | 1 | 3 | | | | | | | | | | | | 1 | | | | | | | | | | | | | |
| 2 | | | | | | | 2 | 2 | 1 | | 2 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 1/4 | | | | | 1 | 2 | | | | 1 | 1 | | | | | | | | | | | 1 | | | | | | | | | 4 | | | | | |
| 2 1/2 | | | | | | | 1 | | | | | | 1 | | | | | | | | | 5 | 6 | | | | | | | | 5 | | | | | |
| 2 5/8 | | | | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | | | | | | | |
| 2 3/4 | | | | 1 | 2 | | | | | | | 6 | 5 | | | | | | | | 4 | | | | | | | | | | | | | 7 | 2 | |
| 3 | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 | 1 | | | 1 | 1 | | | | | | | | 1 | 1 | 1 | | | | | | | 1 | | | | 2 | 6 | |
| 3 1/4 | | | | | | | | | | | | | | | | | | | | | 3 | | | 5 | | | | | | | | | 8 | | 1 | 8 |
| 3 1/2 | | | | | | | | | | | | | | 6 | | | | | | | | | | 3 | | | | | 2 | 2 | | 4 | 1 | | | 2 |
| 3 5/8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 | 1 | |
| 3 3/4 | | | | | | | | | | | | | | 1 | 6 | | | | | 1 | | | | | 1 | | | | 3 | 5 | | 3 | | | | |
| 3 7/8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 | | | | | | | |
| 4 | | | | | | | | | | | | | | | 1 | | | | | 1 | | | | | 5 | | | | 3 | 1 | 1 | 2 | | | | |
| 4 1/4 | | | | | | | | | | | | | | 1 | 1 | | | | | 5 | | | | | 1 | | | | | | | | | | | |
| 4 1/2 | | | | | | | | | | | | | | | | | | 1 | | | | | | | 1 | | | | | | | | | | | |
| 4 3/4 | | | | | | | | | | | | | | | | 1 | | | | | | | | | 1 | | | | | | | | | | | |
| 5 | | | | | | | | | | | | | | | | 5 | 5 | 4 | 5 | 1 | | | | | | 2 | | | | | | | | | | |
| 5 1/4 | | | | | | | | | | | | | | | | 2 | 2 | 2 | 2 | | | | | | | 2 | | 6 | | | | | | | | |
| 5 1/2 | | | | | | | | | | | | | | | | | 1 | | | | | | | | | 5 | 2 | 3 | | | | | | | | |
| 5 3/4 | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | | | | | | | | | | |
| 6 | | | | | | | | | | | | | | | | | | | | | | | | | | | 5 | | | | | | | | | |
| 6 1/4 | | | | | | | | | | | | | | | | | | 1 | | | | | | | | | 2 | | | | | | | | | |
| Number of Companies Reporting: | 4 | 4 | 4 | 5 | 4 | 4 | 5 | 6 | 6 | 6 | 7 | 7 | 7 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 9 | 10 | 9 | 9 | 10 | 10 | 10 |

TABLE 6.8-C

INTEREST RATES PAID BY THE TEN LARGEST SALES FINANCE COMPANIES ON 90-DAY SHORT TERM PAPER, QUARTERLY, 1953 - 1961

| End of Quarter: | 1953 I | II | III | IV | 1954 I | II | III | IV | 1955 I | II | III | IV | 1956 I | II | III | IV | 1957 I | II | III | IV | 1958 I | II | III | IV | 1959 I | II | III | IV | 1960 I | II | III | IV | 1961 I | II | III | IV |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 3/4 | | | | | | | 1 | 1 | 4 | 4 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 | | | | | | | | 3 | | 1 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 1/4 | | | | | | 1 | 3 | 2 | 1 | 1 | 3 | | | | | | | | | | | | 1 | | | | | | | | | | | | | |
| 2 1/2 | | | | | | 3 | | | | | | | | | | | | | | | | 1 | | | | | | | | | 4 | | | | | |
| 2 3/4 | | | | | 1 | | 1 | | | | | | 2 | | | | | | | | | 6 | 6 | | | | | | | | 4 | | | | | |
| 3 | 1 | 1 | 1 | 1 | 3 | 1 | 1 | 1 | 1 | | | 7 | 3 | | | | | | | | 4 | 1 | 1 | | | | | | | | 1 | | | 7 | 2 | |
| 3 1/4 | 2 | 2 | 2 | 4 | 1 | | | | | | | | 1 | | | | | | | | 1 | 1 | 1 | | | | | | | 1 | | | | 2 | 6 | |
| 3 1/2 | 2 | 2 | 2 | 1 | | | | | | | | | | 1 | | | | | | | 3 | | | 6 | | | | | | | | | | | 1 | 8 |
| 3 3/4 | | | | | | | | | | | | | 1 | 4 | | | | | | | | | | 3 | | | | | | 1 | | | 8 | | 1 | 1 |
| 3 7/8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 |
| 4 | | | | | | | | | | | | | | 2 | 4 | | | | | | | | | | | | | | 6 | 6 | | 6 | 1 | | | |
| 4 1/8 | | | | | | | | | | | | | | | 1 | | | | | | | | | | | | | | | | | | | | | |
| 4 1/4 | | | | | | | | | | | | | | | 1 | | | | | 1 | 1 | | | | 1 | | | | 1 | 1 | | 3 | | | | |
| 4 3/8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 | | | | | |
| 4 1/2 | | | | | | | | | | | | | | 1 | | | | | | 5 | | | | | 6 | | | | 2 | | | 1 | | | | |
| 4 3/4 | | | | | | | | | | | | | | | 2 | | | | | 1 | | | | | 1 | | | | | | | | 1 | | | |
| 5 | | | | | | | | | | | | | | | | 2 | | | | 1 | | | | | 1 | | | | | | | | | | | |
| 5 1/4 | | | | | | | | | | | | | | | | 4 | 5 | 5 | 5 | 1 | | | | | | 1 | | | | | | | | | | |
| 5 1/2 | | | | | | | | | | | | | | | | 2 | 2 | 2 | 2 | | | | | | | 7 | | 6 | | | | | | | | |
| 5 3/4 | | | | | | | | | | | | | | | | | 1 | | 1 | | | | | | | 1 | | 2 | | | | | | | | |
| 5 7/8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | |
| 6 | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | 2 | | | | | | | | | |
| 6 1/4 | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | | |
| 6 3/8 | | | | | | | | | | | | | | | | | | | | | | | | | | | 2 | | | | | | | | | |
| 6 1/2 | | | | | | | | | | | | | | | | | | 1 | | | | | | | | | 4 | | | | | | | | | |
| Number of Companies Reporting: | 5 | 5 | 5 | 6 | 5 | 5 | 6 | 7 | 6 | 6 | 7 | 7 | 7 | 8 | 8 | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 10 | 10 | 10 | 9 | 10 | 10 |

TABLE 6.8 - D

INTEREST RATES PAID BY THE TEN LARGEST SALES FINANCE COMPANIES ON 180 - DAY SHORT TERM PAPER, QUARTERLY, 1953 - 1961

| End of | 1953 | | | | 1954 | | | | 1955 | | | | 1956 | | | | 1957 | | | | 1958 | | | | 1959 | | | | 1960 | | | | 1961 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Quarter: | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| 2 | | | | | | | 1 | 1 | 3 | 4 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 1/4 | | | | | | | | 3 | | 1 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 1/2 | | | | | | 1 | 3 | 2 | 1 | 1 | 3 | | | | | | | | | | | | 1 | | | | | | | | | | | | | |
| 2 3/4 | | | | | | 3 | | | | | | | | | | | | | | | | 1 | | | | | | | | | 4 | | | | | |
| 3 | | | | | | | 1 | | | | | | 1 | | | | | | | | | 6 | 6 | | | | | | | | 4 | | | 1 | | |
| 3 1/4 | | | | | 3 | | | | | | | 3 | 5 | | | | | | | | 4 | 2 | 2 | | | | | | | | 1 | | | 6 | 3 | |
| 3 1/2 | 3 | 3 | 3 | 3 | 1 | 1 | 1 | 1 | 1 | | | 3 | 1 | | | | | | | | 2 | | | | | | | | | | | | | 2 | 5 | 1 |
| 3 3/4 | | | | 2 | 1 | | | | | | | 1 | | | | | | | | | 2 | | | 1 | | | | | | 1 | | | 1 | | 1 | 7 |
| 4 | 2 | 2 | 2 | 1 | | | | | | | | | | 6 | | | | | | | | | | 8 | | | | | | 1 | | | 7 | | | 1 |
| 4 1/4 | | | | | | | | | | | | | | 1 | 4 | | | | | | | | | | 1 | | | | 1 | 4 | | 4 | 1 | | 1 | |
| 4 3/8 | | | | | | | | | | | | | | | 1 | | | | | | | | | | | | | | | 1 | | 1 | | | | |
| 4 1/2 | | | | | | | | | | | | | | | 1 | | | | | 1 | 1 | | | | | | | | 5 | 2 | | 3 | | | | |
| 4 5/8 | | | | | | | | | | | | | | | 1 | | | | | | | | | | | | | | 1 | | | | 1 | | | |
| 4 3/4 | | | | | | | | | | | | | | 1 | | | | | | 4 | | | | | 6 | | | | 2 | | | 1 | | | | |
| 4 7/8 | | | | | | | | | | | | | | | | | | | | 1 | | | | | 1 | | | | | | | | | | | |
| 5 | | | | | | | | | | | | | | | 1 | | | | | 1 | | | | | | | | | | | | | | | | |
| 5 1/4 | | | | | | | | | | | | | | | | 1 | | | | 1 | | | | | 1 | 1 | | 1 | | | | | | | | |
| 5 1/2 | | | | | | | | | | | | | | | | 4 | 4 | 4 | 5 | 1 | | | | | | 1 | | | | | | | | | | |
| 5 5/8 | | | | | | | | | | | | | | | | 1 | 1 | 1 | 1 | | | | | | | | | | | | | | | | | |
| 5 3/4 | | | | | | | | | | | | | | | | 2 | 2 | 2 | 1 | | | | | | | 5 | | 5 | | | | | | | | |
| 6 | | | | | | | | | | | | | | | | | 1 | | | | | | | | | 2 | 1 | 3 | | | | | | | | |
| 6 1/4 | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | 2 | | | | | | | | | |
| 6 1/2 | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | | |
| 6 3/4 | | | | | | | | | | | | | | | | | | 1 | | | | | | | | | 5 | | | | | | | | | |
| Number of Companies Reporting: | 5 | 5 | 5 | 6 | 5 | 5 | 6 | 7 | 5 | 6 | 7 | 7 | 7 | 8 | 8 | 8 | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 10 | 9 | 10 | 9 |

Vetherout & Young
Toronto, Ontario



TABLE 6.8 - E

INTEREST RATES PAID BY THE TEN LARGEST SALES FINANCE COMPANIES ON 270 - DAY SHORT TERM PAPER, QUARTERLY, 1953 - 1961

| End of | 1953 | | | | 1954 | | | | 1955 | | | | 1956 | | | | 1957 | | | | 1958 | | | | 1959 | | | | 1960 | | | | 1961 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Quarter: | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| 2 | | | | | | | | | | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 1/4 | | | | | | | 1 | 1 | 3 | 3 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 1/2 | | | | | | | | 3 | | 1 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 3/4 | | | | | | 1 | 3 | 2 | 1 | 1 | 3 | | | | | | | | | | | | 1 | | | | | | | | | | | | | |
| 3 | | | | | | 3 | | | | | | | | | | | | | | | | 1 | | | | | | | | | 3 | | | | | |
| 3 1/4 | | | | | | | 1 | | | | | | 1 | | | | | | | | | 6 | 5 | | | | | | | | 5 | | | | | |
| 3 3/8 | | | | | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | 1 | | | | | |
| 3 1/2 | | | | | 3 | | | | | | | 4 | 5 | | | | | | | | 4 | | | | | | | | | | | | | 7 | 2 | |
| 3 3/4 | 2 | 2 | 2 | 4 | 2 | 1 | 1 | 1 | 1 | | | 3 | | | | | | | | | 1 | 1 | 1 | | | | | | | | | | | 2 | 5 | |
| 3 7/8 | 1 | 1 | 1 | 1 | | | | | | | | | 1 | | | | | | | | | | | | | | | | | | | | | | 1 | |
| 4 | 2 | 2 | 2 | 1 | | | | | | | | | | 1 | | | | | | | 3 | | | | | | | | | 1 | | | | | 1 | 7 |
| 4 1/8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 |
| 4 1/4 | | | | | | | | | | | | | | 5 | 1 | | | | | | | | | 5 | | | | | | 1 | | | 7 | | | 2 |
| 4 3/8 | | | | | | | | | | | | | | 1 | | | | | | | | | | 1 | | | | | | | | | 1 | | | |
| 4 1/2 | | | | | | | | | | | | | | | 3 | | | | | | | | | 2 | | | | | 3 | 5 | | 4 | 1 | | | |
| 4 5/8 | | | | | | | | | | | | | | | 1 | | | | | | | | | | | | | | | 1 | | 1 | | | | |
| 4 3/4 | | | | | | | | | | | | | | | 2 | | | | | 1 | | | | | | | | | 3 | 1 | | 3 | | | | |
| 5 | | | | | | | | | | | | | | 1 | | | | | | 3 | | | | | 6 | | | | 3 | | | 1 | | | | |
| 5 1/8 | | | | | | | | | | | | | | | | | | | | 1 | | | | | 1 | | | | | | | | | | | |
| 5 1/4 | | | | | | | | | | | | | | | 1 | | | | | 1 | | | | | 1 | | | | | | | | | | | |
| 5 1/2 | | | | | | | | | | | | | | | | 5 | | | | 1 | | | | | 1 | | | | | | | | | | | |
| 5 3/4 | | | | | | | | | | | | | | | | 2 | 4 | 4 | 4 | 2 | | | | | | 4 | | | | | | | | | | |
| 6 | | | | | | | | | | | | | | | | 1 | 3 | 3 | 3 | | | | | | | 4 | | 4 | | | | | | | | |
| 6 1/4 | | | | | | | | | | | | | | | | | 1 | | | | | | | | | 1 | 1 | 5 | | | | | | | | |
| 6 1/2 | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | 1 | | | | | | | | | |
| 6 3/4 | | | | | | | | | | | | | | | | | | | | | | | | | | | 6 | | | | | | | | | |
| 7 | | | | | | | | | | | | | | | | | | 1 | | | | | | | | | 1 | | | | | | | | | |
| Number of Companies Reporting: | 5 | 5 | 5 | 6 | 5 | 5 | 6 | 7 | 5 | 6 | 7 | 7 | 7 | 8 | 8 | 8 | 8 | 8 | 8 | 9 | 8 | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 10 |

TABLE 6.8- F

INTEREST RATES PAID BY THE TEN LARGEST SALES FINANCE COMPANIES ON 365 - DAY SHORT TERM PAPER, QUARTERLY, 1953 - 1961

| End of | 1953 | | | | 1954 | | | | 1955 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Quarter: | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| 2 % | | | | | | | | | | 1 | | |
| 2 1/4 | | | | | | | 1 | 1 | 3 | 3 | 1 | |
| 2 1/2 | | | | | | | | 3 | | 1 | 3 | |
| 2 3/4 | | | | | | | 1 | 1 | 1 | | 2 | |
| 2 7/8 | | | | | | | 1 | | | | | |
| 3 | | | | | | 3 | 1 | 1 | | 1 | 1 | |
| 3 1/4 | | | | | | 1 | 1 | | | | | |
| 3 3/8 | | | | | | | | | | | | |
| 3 1/2 | | | | | 1 | | | | | | | 3 |
| 3 5/8 | | | | | 1 | | | | | | | 1 |
| 3 3/4 | 1 | 1 | 1 | 2 | 1 | | | | | | | 2 |
| 3 7/8 | 1 | 1 | 1 | 1 | | | | | | | | |
| 4 | 3 | 2 | 1 | 2 | 2 | 1 | 1 | 1 | 1 | | | 1 |
| 4 1/8 | | | | | | | | | | | | |
| 4 1/4 | | 1 | 2 | 1 | | | | | | | | |
| 4 3/8 | | | | | | | | | | | | |
| 4 1/2 | | | | | | | | | | | | |
| 4 3/4 | | | | | | | | | | | | |
| 5 | | | | | | | | | | | | |
| 5 1/4 | | | | | | | | | | | | |
| 5 1/2 | | | | | | | | | | | | |
| 5 3/4 | | | | | | | | | | | | |
| 5 7/8 | | | | | | | | | | | | |

| End of | 1956 | | | | 1957 | | | | 1958 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Quarter: | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| 2 % | | | | | | | | | | | | |
| 2 1/4 | | | | | | | | | | | | |
| 2 1/2 | | | | | | | | | | | | |
| 2 3/4 | | | | | | | | | | | | |
| 2 7/8 | | | | | | | | | | | | |
| 3 | | | | | | | | | | 1 | | |
| 3 1/4 | | | | | | | | | | 4 | 4 | |
| 3 3/8 | | | | | | | | | | 1 | 2 | |
| 3 1/2 | 5 | | | | | | | | 3 | | | |
| 3 5/8 | 1 | | | | | | | | 1 | | | |
| 3 3/4 | 1 | | | | | | | | 1 | | | |
| 3 7/8 | | | | | | | | | | | | |
| 4 | | | | | | | | | 1 | 1 | 1 | |
| 4 1/8 | | | | | | | | | | | | |
| 4 1/4 | | 6 | | | | | | | 1 | | | 4 |
| 4 3/8 | | 1 | | | | | | | | | | |
| 4 1/2 | | | 4 | | | | | | | | | 2 |
| 4 3/4 | | | 3 | | | | | 1 | | | | 1 |
| 5 | | | | | | | | 3 | | | | |
| 5 1/4 | | 1 | | | | | | 1 | | | | |
| 5 1/2 | | | 1 | 4 | | | | | | | | |
| 5 3/4 | | | | 1 | 4 | 4 | 4 | 1 | | | | |
| 5 7/8 | | | | 1 | | | | | | | | |

| End of | 1959 | | | | 1960 | | | | 1961 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Quarter: | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| 2 % | | | | | | | | | | | | |
| 2 1/4 | | | | | | | | | | | | |
| 2 1/2 | | | | | | | | | | | | |
| 2 3/4 | | | | | | | | | | | | |
| 2 7/8 | | | | | | | | | | | | |
| 3 | | | | | | | 3 | | | | | |
| 3 1/4 | | | | | | | 3 | | | | | |
| 3 3/8 | | | | | | | | | | | | |
| 3 1/2 | | | | | | | 2 | | | 5 | 2 | |
| 3 5/8 | | | | | | | | | | 1 | | |
| 3 3/4 | | | | | | | | | | 1 | 1 | |
| 3 7/8 | | | | | | | | | | | 1 | |
| 4 | | | | | | 1 | | | | 1 | 3 | 5 |
| 4 1/8 | | | | | | | | | | | | 1 |
| 4 1/4 | | | | | | | | | 5 | | 1 | 2 |
| 4 3/8 | | | | | | | | | | | | |
| 4 1/2 | | | | | 2 | 5 | | 3 | 3 | | | |
| 4 3/4 | | | | | 3 | 2 | | 3 | | | | |
| 5 | 4 | | | | 2 | | | 2 | | | | |
| 5 1/4 | 1 | | | | 1 | | | | | | | |
| 5 1/2 | 3 | | | | | | | | | | | |
| 5 3/4 | | 4 | | | | | | | | | | |
| 5 7/8 | | | | | | | | | | | | |

TABLE 6.8 -F (con't)

| End of Quarter: | 1953 I | II | III | IV | 1954 I | II | III | IV | 1955 I | II | III | IV | 1956 I | II | III | IV | 1957 I | II | III | IV |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6 | | | | | | | | | | | | | | | | 2 | 3 | 2 | 2 | 1 |
| 6 1/4 | | | | | | | | | | | | | | | | | | | | |
| 6 3/8 | | | | | | | | | | | | | | | | | | | | |
| 6 1/2 | | | | | | | | | | | | | | | | | 1 | | | |
| 6 3/4 | | | | | | | | | | | | | | | | | | | 1 | |
| [illegible] | | | | | | | | | | | | | | | | | | | | |
| 7 1/8 | | | | | | | | | | | | | | | | | | 1 | | |
| Number of [illegible] Reporting: | 5 | 5 | 5 | 6 | 5 | 5 | 6 | 7 | 5 | 6 | 7 | 7 | 7 | 8 | 8 | 8 | 8 | 7 | 7 | 7 |

| End of Quarter: | 1958 I | II | III | IV | 1959 I | II | III | IV | 1960 I | II | III | IV | 1961 I | II | III | IV |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 6 | | | | | | 2 | | 3 | | | | | | | | |
| 6 1/4 | | | | | | 2 | 1 | 2 | | | | | | | | |
| 6 3/8 | | | | | | | | 1 | | | | | | | | |
| 6 1/2 | | | | | | | | 1 | | | | | | | | |
| 6 3/4 | | | | | | | 4 | 1 | | | | | | | | |
| [illegible] | | | | | | | 2 | | | | | | | | | |
| 7 1/8 | | | | | | | 1 | | | | | | | | | |
| Number of [illegible] Reporting: | 7 | 7 | 7 | 7 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |

TABLE 6.9

INTEREST RATES PAID BY THE TEN LARGEST SALES FINANCE COMPANIES ON LONG TERM PAPER, QUARTERLY, 1953-1961

| End of | 1953 | | | | 1954 | | | | 1955 | | | | 1956 | | | | 1957 | | | | 1958 | | | | 1959 | | | | 1960 | | | | 1961 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Quarter: | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV | I | II | III | IV |
| 4 1/8 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 1/4 | | | | | 1 | 1 | 1 | 1 | 1 | | | | | | 1 | | | | | | | | | | | | | | | | | | | | | |
| 4 1/2 | 1 | 1 | 1 | 2 | 2 | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 3 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| 4 3/4 | 1 | | | | | | | | | | | | | 1 | | | | | | | | | | | | | | | | | | | | | | |
| 5 | 1 | 1 | 2 | 2 | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 2 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 1 | | | | | | | | | | |
| 5 1/4 | 1 | | | 1 | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 3/8 | | | | | | | | | | | | | | | | | | 1 | | | | | | | | | | | | | | | | | | |
| 5 1/2 | | | | | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | | 1 | 1 | 1 | | | | | | | | |
| 5 3/4 | | | | | | | | | | | 1 | | | | | | 1 | | | | | 1 | 1 | 1 | 3 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 1 |
| 6 | | | | | | | | | | | | | | | | | | | 1 | | | | 1 | | 1 | 2 | 1 | 2 | 1 | 2 | 2 | 2 | 2 | 2 | 1 | 1 |
| 6 1/4 | | | | | | | | | | | | | | | | | | | | | | 1 | | | | | | | | 1 | | | | | | |
| 6 3/8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 | | | | | |
| 6 1/2 | | | | | | | | | | | | | | | | | | | 1 | | | 1 | 1 | 1 | | | 3 | 2 | 2 | 2 | | 1 | | 1 | | |
| 6 5/8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 | 1 |
| 7 1/4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | 1 | | | | | | | |
| Number of Companies Reporting: | 5 | 2 | 3 | 4* | 5* | 3* | 4* | 4* | 4* | 4* | 5* | 4* | 6* | 5* | 5* | 4* | 5* | 5 | 5* | 4 | 4 | 5* | 5* | 5 | 6* | 6* | 5* | 5* | 4* | 5* | 4* | 4* | 3* | 4* | 4* | 3* |

* - One company reporting two rates.

TABLE 6.10

INTEREST RATES PAID BY THE TEN LARGEST SALES FINANCE COMPANIES ON DEBENTURES, QUARTERLY, 1953 - 1961

| End of Quarter: | 1953 I | 1953 II | 1953 III | 1953 IV | 1954 I | 1954 II | 1954 III | 1954 IV | 1955 I | 1955 II | 1955 III | 1955 IV | 1956 I | 1956 II | 1956 III | 1956 IV | 1957 I | 1957 II | 1957 III | 1957 IV |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 4 1/2 % | | | | | | | 1 | 1 | 1 | 1 | 1 | | | | | | | | | |
| 4 3/4 | | 1 | | | | | | | | | | | 1 | | | | | | | |
| 5 | 1 | | | | | | | | | | | | | | 1 | | | | | |
| | | | | | | | | | | | | | | | | | | | | |
| 5 1/4 | 1 | | | 1 | 1 | 1 | | | | | | 1 | 1 | 1 | 1 | | | | | |
| 5 1/2 | 1 | 2 | 3 | 1 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 1 | 1 | 1 | 2 |
| 5 3/4 | | | | | | | | | | | | | | | | 1 | 2 | | | |
| 6 | | | | | | | | | | | | | | | | | | | | |
| 6 1/8 | | | | | | | | | | | | | | | | | | 1 | 1 | |
| 6 1/4 | | | | | | | | | | | | | | | | | | | | |
| 6 1/2 | | | | | | | | | | | | | | | | | | | | |
| 6 5/8 | | | | | | | | | | | | | | | | | | | | |
| 6 3/4 | | | | | | | | | | | | | | | | | | | | |
| 6 4/5 | | | | | | | | | | | | | | | | | | | | |
| Number of Companies Reporting: | 3 | 3 | 3 | 2 | 3 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 2 | 3 | 3 | 3 | 2 | 2 | 2 |

| End of Quarter: | 1958 I | 1958 II | 1958 III | 1958 IV | 1959 I | 1959 II | 1959 III | 1959 IV | 1960 I | 1960 II | 1960 III | 1960 IV | 1961 I | 1961 II | 1961 III | 1961 IV |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 4 1/2 % | | | | | | | | | | | | | | | | |
| 4 3/4 | | | | | | | | | | | | | | | | |
| 5 | | | | | | | | | | | | | | | | |
| | | | | 1 | | | | | | | | | | | | |
| 5 1/4 | | | | | | | | | | | | | | | | |
| 5 1/2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| 5 3/4 | | | 1 | | 1 | 1 | 1 | 1 | | | | | | | | |
| 6 | | | | 2 | | | | | | | | 1 | 1 | 1 | 1 | 1 |
| 6 1/8 | 1 | 1 | | | | | | | | | | | | | | |
| 6 1/4 | | | 1 | 1 | 1 | 1 | 1 | | 1 | | | | | | | |
| 6 1/2 | | | | | | | | | | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| 6 5/8 | | | | | | | | 1 | | | | | | | | |
| 6 3/4 | | | | | | | | | 1 | | | | | | | |
| 6 4/5 | | | | | | | | | 1 | 1 | 1 | | | | | |
| Number of Companies Reporting: | 2* | 2* | 3* | 3* | 2* | 2* | 2* | 2* | 3* | 2* | 2* | 2* | 2* | 2* | 2* | 2* |

* - One company reporting two rates

## TABLE 6.11

FOREIGN AND DOMESTIC SOURCES OF FUNDS OF THE TEN LARGEST SALES FINANCE COMPANIES, 1953 - 1961, MILLIONS OF DOLLARS
( IN CANADIAN FUNDS )

| | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| 1. Bank Loans Outstanding | | | | | | | | | |
| In Canada | 190 | 103 | 171 | 242 | 155 | 178 | 178 | 146 | 95 |
| In U.S. | 1 | 1 | 1 | 1 | 1 | 4 | 16 | 17 | 14 |
| Other Foreign Countries | | | | | | | | | |
| Total Outstanding | 191 | 104 | 172 | 243 | 156 | 182 | 194 | 163 | 109 |
| 2. Short Term Notes Outstanding | | | | | | | | | |
| Sold in Canada | 198 | 151 | 228 | 314 | 387 | 279 | 392 | 413 | 323 |
| Sold in U.S. | 13 | 15 | 8 | 11 | 15 | 12 | 23 | 62 | 84 |
| Sold in Other Foreign Countries | 1 | 1 | 1 | 6 | 7 | 5 | 9 | 14 | 2 |
| Total Outstanding | 212 | 167 | 237 | 331 | 409 | 296 | 424 | 489 | 409 |
| 3. Long Term Notes and Debentures Outstanding | | | | | | | | | |
| Sold in Canada | 214 | 252 | 248 | 299 | 341 | 348 | 381 | 455 | 494 |
| Sold in U.S. | 30 | 33 | 33 | 53 | 79 | 83 | 104 | 132 | 146 |
| Sold in Other Foreign Countries | | | | | | | | | |
| Total Outstanding | 244 | 285 | 281 | 352 | 420 | 431 | 485 | 587 | 640 |

TABLE 6.11 (con't)

| | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| 4. Common Stock Outstanding | | | | | | | | | |
| Sold in Canada | 32 | 38 | 48 | 54 | 55 | 57 | 60 | 63 | 73 |
| Sold in U.S. | 3 | 4 | 4 | 4 | 5 | 6 | 6 | 8 | 8 |
| Sold in Other Foreign Countries | | 1 | 2 | 2 | 2 | 2 | 2 | 3 | 3 |
| Total Outstanding | 35 | 43 | 54 | 60 | 62 | 65 | 68 | 74 | 84 |
| 5. Preferred Stock Outstanding | | | | | | | | | |
| Sold in Canada | 18 | 19 | 20 | 30 | 30 | 32 | 32 | 32 | 37 |
| Sold in U.S. | | a | | a | a | 3 | 3 | 3 | 3 |
| Sold in Other Foreign Countries | | | | | | | | | |
| Total Outstanding | 18 | 19 | 20 | 30 | 30 | 35 | 35 | 35 | 40 |
| a - less than $500,000 | | | | | | | | | |
| 6. Advances from Parent or Subsidiaries | | | | | | | | | |
| In Canada | | | | | | | | | |
| In U.S. | 6 | 5 | | 6 | | | 10 | 10 | 11 |
| In Other Foreign Countries | | | | | | | | | |
| Total Outstanding | 6 | 5 | | 6 | | | 10 | 10 | 11 |

TABLE 6.12

EARNINGS OF THE TEN LARGEST SALES FINANCE COMPANIES
1953 - 1961 THOUSANDS OF DOLLARS

| | 1953 | | 1954 | | 1955 | |
|---|---|---|---|---|---|---|
| | 000$ | Per Cent | 000$ | Per Cent | 000$ | Per Cent |
| Earnings: | | | | | | |
| Retail finance charges | 66,530 | 86.3 | 68,318 | 84.7 | 69,722 | 87.2 |
| Wholesale finance charges (a) | 8,805 | 11.4 | 9,236 | 11.4 | 7,621 | 9.5 |
| Income from real estate loans | | | | | | |
| Income from capital loans to dealers | 141 | 0.2 | 162 | 0.2 | 219 | 0.3 |
| Dividends and interest on investments | | | 51 | 0.1 | | |
| Dividends and interest from associated companies | | | | | | |
| Dividends and interest from subsidiary companies: | | | | | | |
| Small loan | 508 | 0.6 | 624 | 0.8 | 854 | 1.1 |
| Insurance | 130 | 0.2 | 911 | 1.1 | 189 | 0.2 |
| Other | 85 | 0.1 | 155 | 0.2 | 146 | 0.2 |
| Miscellaneous income | 925 | 1.2 | 1,244 | 1.5 | 1,203 | 1.5 |
| Total gross earnings: | 77,124 | 100.0 | 80,701 | 100.0 | 79,954 | 100.0 |
| Expenses: | | | | | | |
| Interest on loans and funded debt | 23,688 | 30.7 | 24,344 | 30.2 | 21,529 | 26.9 |
| Cost of acquisition of borrowed money | 1,342 | 1.7 | 1,269 | 1.6 | 509 | 0.7 |
| Provision for losses | 2,928 | 3.8 | 3,767 | 4.6 | 5,042 | 6.3 |
| Salaries and wages | 12,080 | 15.7 | 14,201 | 17.6 | 15,216 | 19.0 |
| Rent, depreciation and other expenses | 8,539 | 11.1 | 11,321 | 14.0 | 10,203 | 12.8 |
| Earnings before income taxes | 28,547 | 37.0 | 25,799 | 32.0 | 27,455 | 34.3 |
| Provision for income taxes | 15,291 | 19.8 | 12,870 | 16.0 | 13,265 | 16.6 |
| Minority interest | | | | | | |
| Net earnings after taxes: | 13,256 | 17.2 | 12,929 | 16.0 | 14,190 | 17.7 |

TABLE 6.12 (con't)

| | 1956 | | 1957 | | 1958 | |
|---|---|---|---|---|---|---|
| | 000$ | Per Cent | 000$ | Per Cent | 000$ | Per Cent |
| Earnings: | | | | | | |
| Retail finance charges | 87,799 | 85.5 | 102,268 | 83.7 | 102,104 | 81.6 |
| Wholesale finance charges (a) | 10,966 | 10.7 | 15,037 | 12.3 | 12,446 | 10.0 |
| Income from real estate loans | | | | | | |
| Income from capital loans to dealers | 267 | 0.2 | 312 | 0.3 | 429 | 0.3 |
| Dividends and interest on investments | 165 | 0.1 | 232 | 0.2 | 114 | 0.1 |
| Dividends and interest from associated companies | 3 | | 4 | | | |
| Dividends and interest from subsidiary companies: | | | | | | |
| Small loan | 1,311 | 1.3 | 1,774 | 1.5 | 7,303 | 5.8 |
| Insurance | 489 | 0.5 | 148 | 0.1 | 231 | 0.2 |
| Other | 271 | 0.3 | 391 | 0.3 | 537 | 0.4 |
| Miscellaneous income | 1,464 | 1.4 | 1,960 | 1.6 | 1,963 | 1.6 |
| Total gross earnings: | 102,735 | 100.0 | 122,126 | 100.0 | 125,127 | 100.0 |
| Expenses: | | | | | | |
| Interest on loans and funded debt | 32,853 | 32.0 | 46,445 | 38.0 | 41,056 | 32.8 |
| Cost of acquisition of borrowed money | 1,753 | 1.7 | 2,498 | 2.0 | 1,368 | 1.1 |
| Provision for losses | 5,010 | 4.9 | 4,116 | 3.4 | 4,528 | 3.6 |
| Salaries and wages | 17,664 | 17.2 | 19,667 | 16.1 | 21,410 | 17.1 |
| Rent, depreciation and other expenses | 12,138 | 11.8 | 14,222 | 11.7 | 15,893 | 12.7 |
| Earnings before income taxes | 33,317 | 32.4 | 35,178 | 28.8 | 40,872 | 32.7 |
| Provision for income taxes | 15,571 | 15.1 | 16,393 | 13.4 | 18,676 | 14.9 |
| Minority interest | | | 41 | | 88 | 0.1 |
| Net earnings after taxes: | 17,746 | 17.3 | 18,744 | 15.4 | 22,108 | 17.7 |

TABLE 6.12 (con't)

| | 1959 | | 1960 | | 1961 | |
|---|---|---|---|---|---|---|
| | 000$ | Per Cent | 000$ | Per Cent | 000$ | Per Cent |
| Earnings: | | | | | | |
| Retail finance charges | 107,813 | 81.3 | 122,462 | 78.6 | 122,839 | 79.1 |
| Wholesale finance charges (a) | 14,962 | 11.3 | 16,574 | 10.7 | 14,032 | 9.0 |
| Income from real estate loans | 5 | | 11 | | 9 | |
| Income from capital loans to dealers | 563 | 0.4 | 682 | 0.4 | 1,073 | 0.7 |
| Dividends and interest on investments | 2,280 | 1.7 | 5,113 | 3.3 | 3,733 | 2.4 |
| Dividends and interest from associated companies | 50 | | 81 | 0.1 | 90 | 0.1 |
| Dividends and interest from subsidiary companies: | | | | | | |
| Small loan | 3,673 | 2.8 | 6,588 | 4.2 | 7,627 | 4.9 |
| Insurance | 282 | 0.2 | 330 | 0.2 | 243 | 0.2 |
| Other | 698 | 0.5 | 999 | 0.6 | 1,764 | 1.1 |
| Miscellaneous income | 2,318 | 1.8 | 2,905 | 1.9 | 3,841 | 2.5 |
| Total gross earnings: | 132,644 | 100.0 | 155,745 | 100.0 | 155,251 | 100.0 |
| Expenses: | | | | | | |
| Interest on loans and funded debt | 49,515 | 37.3 | 61,186 | 39.3 | 56,864 | 36.6 |
| Cost of acquisition of borrowed money | 1,619 | 1.2 | 2,802 | 1.8 | 2,448 | 1.6 |
| Provision for losses | 6,168 | 4.7 | 6,149 | 3.9 | 7,685 | 5.0 |
| Salaries and wages | 21,935 | 16.5 | 23,476 | 15.1 | 24,407 | 15.7 |
| Rent, depreciation and other expenses | 17,645 | 13.3 | 20,203 | 13.0 | 19,514 | 12.6 |
| Earnings before income taxes | 35,762 | 27.0 | 41,929 | 26.9 | 44,333 | 28.5 |
| Provision for income taxes | 17,142 | 12.9 | 20,498 | 13.2 | 22,088 | 14.2 |
| Minority interest | 68 | 0.1 | 61 | | 53 | |
| Net earnings after taxes: | 18,552 | 14.0 | 21,370 | 13.7 | 22,192 | 14.3 |

Note: (a) - Net , after wholesale insurance

TABLE 6.13

NET EARNINGS AS A PERCENTAGE OF TOTAL ASSETS AND TOTAL SHAREHOLDERS' EQUITY
TEN LARGEST SALES FINANCE COMPANIES, 1953 - 1961

| | Net Earnings After Taxes ('000 $) | Total Shareholders' Equity ('000 $) | Total Assets ('000 $) | Net Earnings as a Percentage of: Total Shareholders' Equity | Total Assets |
|---|---|---|---|---|---|
| 1953 | $13,256 | $83,641 | $838,623 | 15.9% | 1.6% |
| 1954 | 12,929 | 97,949 | 763,975 | 13.2 | 1.7 |
| 1955 | 14,189 | 113,741 | 913,530 | 12.5 | 1.6 |
| 1956 | 17,745 | 138,064 | 1,224,037 | 12.9 | 1.4 |
| 1957 | 18,744 | 142,607 | 1,285,866 | 13.1 | 1.5 |
| 1958 | 22,108 | 165,342 | 1,236,783 | 13.4 | 1.8 |
| 1959 | 18,552 | 174,806 | 1,463,075 | 10.6 | 1.3 |
| 1960 | 21,730 | 189,853 | 1,627,989 | 11.5 | 1.3 |
| 1961 | 22,192 | 214,101 | 1,581,957 | 10.4 | 1.4 |
| | | | Average 1953-1961 | 12.2% | 1.5% |

TABLE 6.14

SURPLUS STATEMENT OF THE TEN LARGEST SALES FINANCE COMPANIES
1953 - 1961, THOUSANDS OF DOLLARS

| | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 |
|---|---|---|---|---|---|---|---|---|---|
| Opening balance | $22,487 | $28,109 | $32,720 | $37,416 | $43,468 | $50,183 | $63,582 | $69,265 | $78,611 |
| Net earnings for the year | 11,448 | 12,929 | 14,189 | 17,745 | 18,744 | 22,108 | 18,552 | 21,370 | 22,192 |
| Adjustments for prior years | (809) | 267 | (114) | (349) | (884) | 3,581 | -- | 1,467 | 412 |
| Dividends paid (preferred and common) | (5,017) | (8,585) | (9,379) | (11,344) | (11,145) | (12,290) | (12,869) | (13,491) | (14,123) |
| Closing balance | 28,109 | 32,720 | 37,416 | 43,468 | 50,183 | 63,582 | 69,265 | 78,611 | 87,092 |

TABLE 7.1

CYCLICAL TURNING POINTS IN NEW AUTOMOBILE RETAIL PAPER PURCHASED BY THE TEN LARGEST SALES FINANCE COMPANIES TOTAL SALES OF NEW PASSENGER VEHICLES AND REFERENCE DATES FOR CANADA, 1954 - 1961

| | Reference Date | Total Sales of New Passenger Vehicles | New Automobile Retail Paper Purchased | No. of Quarters Lead (or Lag) New Automobile Retail Paper compared to: Reference Date | Total Sales of New Passenger Vehicles |
|---|---|---|---|---|---|
| Trough | II / 1954 | IV / 1954 | IV / 1954 | (3) | 0 |
| Peak | I / 1957 | II / 1956 | III / 1956 | 2 | (1) |
| Trough | II / 1958 | IV / 1957 | III / 1958 | (1) | (3) |
| Peak | I / 1960 | II / 1960 | II / 1960 | (1) | 0 |
| Trough | I / 1961 | I / 1961 | II / 1961 | (1) | (1) |

## TABLE 7.2

CYCLICAL TURNING POINTS IN USED AUTOMOBILE PAPER AND OTHER CONSUMER GOODS INSTALMENT PAPER PURCHASED BY THE TEN LARGEST SALES FINANCE COMPANIES AND REFERENCE DATES FOR CANADA 1953 - 1961

| | Reference Date | Used Automobile Paper Purchased | Other Consumer Goods Paper Purchased | No. of Quarters Lead (or Lag) Compare to Reference Date: Used Auto Paper | No. of Quarters Lead (or Lag) Compare to Reference Date: Other Consumer Goods Paper |
|---|---|---|---|---|---|
| Trough | II / 1954 | IV / 1954 | II / 1954 | (2) | - |
| Peak | I / 1957 | IV / 1956 | II / 1956 | 1 | 3 |
| Trough | II / 1958 | IV / 1958 | I / 1959 | (2) | (3) |
| Peak | I / 1960 | IV / 1959 | IV / 1959 | 1 | 1 |
| Trough | I / 1961 | IV / 1961 [A] | IV / 1961 [A] | (3) | (3) |

A - Turning point not established; series how decline at lates figure for IV/1961.

## TABLE 7.3

RETAIL CONSUMER PAPER PURCHASED BY THE
TEN LARGEST SALES FINANCE COMPANIES
1953 - 1961, MILLIONS OF DOLLARS

| Annual Data | New Auto Paper | Used Auto Paper | Other Consumer Goods |
|---|---|---|---|
| 1953 | $307.5 | $319.0 | $125.2 |
| 1954 | 267.2 | 265.2 | 91.1 |
| 1955 | 344.1 | 285.9 | 116.9 |
| 1956 | 466.4 | 322.5 | 134.4 |
| 1957 | 434.5 | 322.8 | 117.1 |
| 1958 | 371.6 | 301.3 | 128.4 |
| 1959 | 418.9 | 296.2 | 140.5 |
| 1960 | 431.8 | 278.3 | 140.8 |
| 1961 | 375.9 | 221.8 | 124.3 |

Annual Rates (Seasonally Adjusted) at Turning Points:

| | New Auto | Used Auto | Other Consumer Goods |
|---|---|---|---|
| Trough | 247.8/IV-1954 | 258.4/IV-1954 | 85.6/ II-1954 |
| Peak | 498.4/III-1956 | 330.4/IV-1956 | 140.4/ II-1956 |
| Trough | 345.2/III-1958 | 279.6/IV-1958 | 123.2/ I-1959 |
| Peak | 446.8/ II-1960 | 313.2/IV-1959 | 148.4/IV-1959 |
| Trough | 368.4/ II-1961 | 205.6/IV-1961 | 116.0/IV-1961 |

| | New Auto | Used Auto | Other Consumer Goods |
|---|---|---|---|
| Trough to Peak | +101.1 | +27.9 | +64.0 |
| Peak to Trough | - 30.7 | -15.4 | -12.2 |
| Trough to Peak | + 29.4 | +12.0 | +20.5 |
| Peak to Trough | - 17.5 | -34.4 | -21.8 |

TABLE 7.4

CYCLICAL TURNING POINTS AND AMPLITUDES IN TOTAL NOTES RECEIVABLE BY THE TEN LARGEST SALES FINANCE COMPANIES AND REFERENCE DATES FOR CANADA 1954 - 1961

| | Reference Date | Turning Point Total Notes Receivable | Lag (No. of Quarters) Total Notes Receivable Behind Reference Date | Total Notes Receivable Seasonally Adjusted (Millions of $) | Per Cent Change-Trough to Peak and Peak to Trough |
|---|---|---|---|---|---|
| Trough | II / 1954 | IV / 1954 | (2) | $ 737 | |
| Peak | I / 1957 | III / 1957 | (2) | 1,210 | + 64.2 |
| Trough | II / 1958 | III / 1958 | (1) | 1,118 | - 7.6 |
| Peak | I / 1960 | IV / 1960 | (3) | 1,372 | + 22.7 |
| Trough | I / 1961 | IV / 1961 A | (3) | 1,284 | - 6.4 |

A - Turning point not established; series shows decline at latest figure for IV/1961.

TABLE 7.5

INDEX OF FINANCE CHARGE ON A $2,000 UNPAID BALANCE
ON A NEW AUTOMOBILE REPAYABLE OVER 30 MONTHS
1954 - 1961 SECOND QUARTER 1954 = 100

| Company No: | | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| 1954 | II | 100 | 100 - 100 | 100 | 100 | 100 | 100 | 100 |
| | III | 100 | 100 - 100 | 100 | 100 | 100 | 100 | 100 |
| | IV | 100 | 100 - 118 | 100 | 100 | 100 | 100 | 100 |
| 1955 | I | 100 | 114 - 118 | 93 | 97 | 100 | 96 | 100 |
| | II | 100 | 114 - 118 | 93 | 97 | 100 | 96 | 100 |
| | III | 100 | 114 - 118 | 93 | 97 - 110 | 100 | 96 | 100 |
| | IV | 100 | 114 - 118 | 93 | 97 - 110 | 100 | 96 | 103 |
| 1956 | I | 100 | 114 - 118 | 93 | 97 - 110 | 100 | 96 | 103 |
| | II | 103 | 114 - 118 | 93 | 97 - 110 | 100 | 99 | 103 |
| | III | 103 | 114 - 118 | 93 | 97 - 100 | 100 | 99 | 103 |
| | IV | 103 | 114 - 126 | 93 | 105 - 119 | 100 | 99 | 103 |
| 1957 | I | 110 | 114 - 126 | 93 | 105 - 119 | 110 | 99 | 120 |
| | II | 110 | 114 - 126 | 93 | 105 - 119 | 110 | 117 | 120 |
| | III | 110 | 114 - 126 | 93 | 105 - 119 | 110 | 117 | 120 |
| | IV | 110 | 114 - 126 | 93 | 105 - 119 | 110 | 117 | 120 |

TABLE 7.5 (con't)

| Company No: | | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|---|
| 1958 | I | 110 | 114 - 126 | 107 | 105 - 119 | 110 | 118 | 120 |
| | II | 110 | 114 - 126 | 107 | 105 - 119 | 110 | 116 | 120 |
| | III | 110 | 114 - 126 | 107 | 90 - 114 | 110 | 116 | 120 |
| | IV | 101 | 114 - 126 | 107 | 90 - 114 | 110 | 116 | 120 |
| 1959 | I | 101 | 91 - 126 | 107 | 90 - 114 | 121 | 116 | 120 |
| | II | 101 | 91 - 126 | 107 | 97 - 121 | 121 | 116 | 120 |
| | III | 107 | 91 - 126 | 107 | 97 - 121 | 121 | 116 | 128 |
| | IV | 107 | 91 - 126 | 107 | 97 - 121 | 121 | 116 | 128 |
| 1960 | I | 83 - 107 | 91 - 126 | 107 | 97 - 121 | 121 | 116 | 128 |
| | II | 83 - 107 | 91 - 126 | 107 | 91 - 121 | 110 | 116 | 96 - 128 |
| | III | 83 - 107 | 91 - 126 | 107 | 91 - 121 | 110 | 116 | 96 - 128 |
| | IV | 83 - 107 | 91 - 126 | 107 | 91 - 121 | 110 | 116 | 96 - 128 |
| 1961 | I | 83 - 107 | 91 - 126 | 107 | 91 - 121 | 110 | 116 | 96 - 128 |
| | II | 83 - 107 | 91 - 126 | 107 | 91 - 121 | 73 | 116 | 96 - 128 |
| | III | 83 - 107 | 91 - 126 | 107 | 91 - 121 | 73 | 116 | 96 - 128 |
| | IV | 83 - 107 | 91 - 126 | 107 | 91 - 121 | 73 | 116 | 96 - 128 |

TABLE 7.6

AVERAGE REPAYMENT PERIOD (IN MONTHS)
ON NEW AUTOMOBILE INSTALMENT CONTRACTS
FOUR SALES FINANCE COMPANIES
1954 - 1961 QUARTERLY

| | | 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| 1954 | I | 21.5 | | 19.1 | 20.0 |
| | II | 21.7 | | 19.9 | 20.6 |
| | III | 22.8 | | 20.9 | 21.1 |
| | IV | 22.5 | | 20.4 | 21.3 |
| 1955 | I | 22.0 | | 22.2 | 21.2 |
| | II | 23.0 | | 23.3 | 22.0 |
| | III | 24.0 | | 23.9 | 23.7 |
| | IV | 23.7 | | 23.1 | 23.7 |
| 1956 | I | 24.3 | | 24.3 | 22.9 |
| | II | 24.6 | | 24.1 | 23.1 |
| | III | 25.2 | | 24.6 | 23.6 |
| | IV | 24.4 | | 23.5 | 22.8 |
| 1957 | I | 23.4 | | 23.6 | 21.5 |
| | II | 24.1 | | 24.4 | 22.5 |
| | III | 25.4 | | 25.3 | 24.0 |
| | IV | 25.1 | 24.8 | 24.2 | 23.4 |
| 1958 | I | 24.6 | 24.4 | 24.9 | 22.1 |
| | II | 25.1 | 26.5 | 25.2 | 23.2 |
| | III | 25.6 | 26.8 | 25.5 | 23.9 |
| | IV | 25.8 | 27.5 | 24.5 | 23.5 |
| 1959 | I | 25.7 | 26.5 | 25.5 | 23.5 |
| | II | 26.2 | 27.2 | 26.2 | 23.9 |
| | III | 27.2 | 28.3 | 26.7 | 24.8 |
| | IV | 26.8 | 28.5 | 25.3 | 23.8 |
| 1960 | I | 26.4 | 27.8 | 25.5 | 24.0 |
| | II | 27.1 | 28.7 | 26.3 | 25.1 |
| | III | 28.0 | 29.4 | 27.0 | 26.0 |
| | IV | 27.4 | 29.0 | 25.2 | 25.2 |
| 1961 | I | 27.2 | 27.9 | 25.8 | 25.2 |
| | II | 28.0 | 29.3 | 27.0 | 26.0 |
| | III | 28.6 | 29.8 | 27.7 | 26.9 |
| | IV | 28.1 | 29.8 | 26.3 | 26.4 |
| Change: 1954-1961 (No. of months) | | + 6.6 | + 5.0* | + 7.2 | + 6.4 |

* IV/1957 to IV/1961

TABLE 7.7

AVERAGE REPAYMENT PERIOD ( IN MONTHS )
USED AUTOMOBILE INSTALMENT CONTRACTS
FOUR SALES FINANCE COMPANIES
1954 - 1961 QUARTERLY

| | | 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| 1954 | I | 17.4 | | 16.2 | 15.6 |
| | II | 17.4 | | 16.5 | 15.5 |
| | III | 17.2 | | 16.4 | 15.6 |
| | IV | 17.3 | | 16.0 | 15.6 |
| 1955 | I | 17.0 | | 16.9 | 15.9 |
| | II | 17.1 | | 16.8 | 16.1 |
| | III | 17.2 | | 16.6 | 16.1 |
| | IV | 17.1 | | 16.4 | 16.2 |
| 1956 | I | 17.6 | | 17.1 | 16.7 |
| | II | 17.2 | | 17.0 | 16.3 |
| | III | 17.1 | | 16.9 | 16.1 |
| | IV | 17.1 | | 16.5 | 15.8 |
| 1957 | I | 16.7 | | 17.1 | 15.4 |
| | II | 16.3 | | 16.8 | 15.9 |
| | III | 16.8 | | 17.1 | 16.1 |
| | IV | 16.8 | 17.1 | 17.0 | 16.3 |
| 1958 | I | 17.0 | 17.3 | 17.7 | 16.5 |
| | II | 16.7 | 17.7 | 17.5 | 16.4 |
| | III | 17.2 | 18.2 | 17.2 | 16.4 |
| | IV | 17.1 | 17.8 | 17.5 | 16.5 |
| 1959 | I | 17.6 | 18.2 | 17.9 | 17.0 |
| | II | 17.4 | 18.6 | 18.0 | 16.8 |
| | III | 17.7 | 18.9 | 17.9 | 16.8 |
| | IV | 17.7 | 18.8 | 17.7 | 16.8 |
| 1960 | I | 18.2 | 19.5 | 18.3 | 17.0 |
| | II | 17.7 | 19.4 | 18.1 | 17.0 |
| | III | 17.8 | 19.6 | 17.5 | 17.1 |
| | IV | 17.7 | 18.8 | 17.8 | 16.5 |
| 1961 | I | 17.8 | 19.2 | 18.2 | 17.2 |
| | II | 17.8 | 19.3 | 18.2 | 17.0 |
| | III | 17.7 | 19.1 | 17.4 | 16.9 |
| | IV | 17.8 | 18.5 | 18.1 | 17.1 |
| Change: 1954-1961 (No. of months) | | + 0.4 | + 1.4* | + 1.9 | + 1.5 |

* IV/1957 to IV/1961

TABLE 7.8

AVERAGE REPAYMENT PERIOD ( IN MONTHS ) ON
OTHER CONSUMER GOODS INSTALMENT CONTRACTS
FOUR SALES FINANCE COMPANIES
1954 - 1961 QUARTERLY

| | | 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|
| 1954 | I | 16.6 | | 17.0 | 20 |
| | II | 16.4 | | 17.7 | 19 |
| | III | 16.1 | | 17.9 | 19 |
| | IV | 16.1 | | 18.1 | 19 |
| 1955 | I | 15.9 | | 18.3 | 19 |
| | II | 15.8 | | 18.5 | 20 |
| | III | 16.5 | | 18.5 | 20 |
| | IV | 17.2 | | 18.4 | 19 |
| 1956 | I | 18.1 | | 18.4 | 20 |
| | II | 17.4 | | 18.4 | 20 |
| | III | 16.9 | | 18.3 | 18 |
| | IV | 17.4 | | 18.1 | 19 |
| 1957 | I | 17.3 | | 17.8 | 18 |
| | II | 16.5 | | 18.2 | 18 |
| | III | 17.8 | | 18.1 | 18 |
| | IV | 16.7 | 16.5 | 17.8 | 18 |
| 1958 | I | 16.1 | 16.5 | 17.8 | 18 |
| | II | 16.0 | 16.8 | 17.9 | 19 |
| | III | 16.0 | 17.6 | 18.0 | 19 |
| | IV | 16.9 | 17.0 | 17.8 | 20 |
| 1959 | I | 16.4 | 16.4 | 17.8 | 19 |
| | II | 17.1 | 16.7 | 17.9 | 19 |
| | III | 17.5 | 17.5 | 19.2 | 19 |
| | IV | 17.7 | 17.3 | 18.3 | 19 |
| 1960 | I | 17.1 | 18.3 | 18.0 | 20 |
| | II | 17.4 | 17.6 | 18.7 | 20 |
| | III | 17.6 | 18.2 | 18.4 | 21 |
| | IV | 17.4 | 18.7 | 19.1 | 20 |
| 1961 | I | 17.7 | 18.3 | 17.6 | 19 |
| | II | 17.6 | 18.2 | 18.0 | 20 |
| | III | 18.4 | 18.2 | 18.4 | 21 |
| | IV | 18.4 | 18.1 | 17.9 | 20 |
| Change: 1954- 1961 (No. of months) | | +1.8 | +1.6* | +0.9 | -- |

* IV/1957 to IV/1961

TABLE 7.9

CYCLICAL TURNING POINTS AND AMPLITUDES IN SHORT TERM NOTES OUTSTANDING OF THE TEN LARGEST SALES FINANCE COMPANIES AND REFERENCE DATES FOR CANADA, 1954 - 1961

| | Reference Date | Turning Point Total Short Term Notes Outstanding | Lag (No. of Quarters) Total Notes Outstanding Behind Reference Date | Total Short Term Notes Outstanding (Millions of $) | Per Cent Change - Trough to Peak and Peak to Trough |
|---|---|---|---|---|---|
| Trough | II / 1954 | I / 1955 | (3) | $184 | |
| Peak | I / 1957 | IV / 1957 | (3) | 449 | + 144.0 |
| Trough | II / 1958 | IV / 1958 | (2) | 325 | - 27.6 |
| Peak | I / 1960 | I / 1961 | (4) | 512 | + 57.5 |
| Trough | I / 1961 | IV / 1961 A | (3) | 439 | - 14.3 |

A - Turning point not established; series shows decline at latest figure for IV/1961

## TABLE 7.10

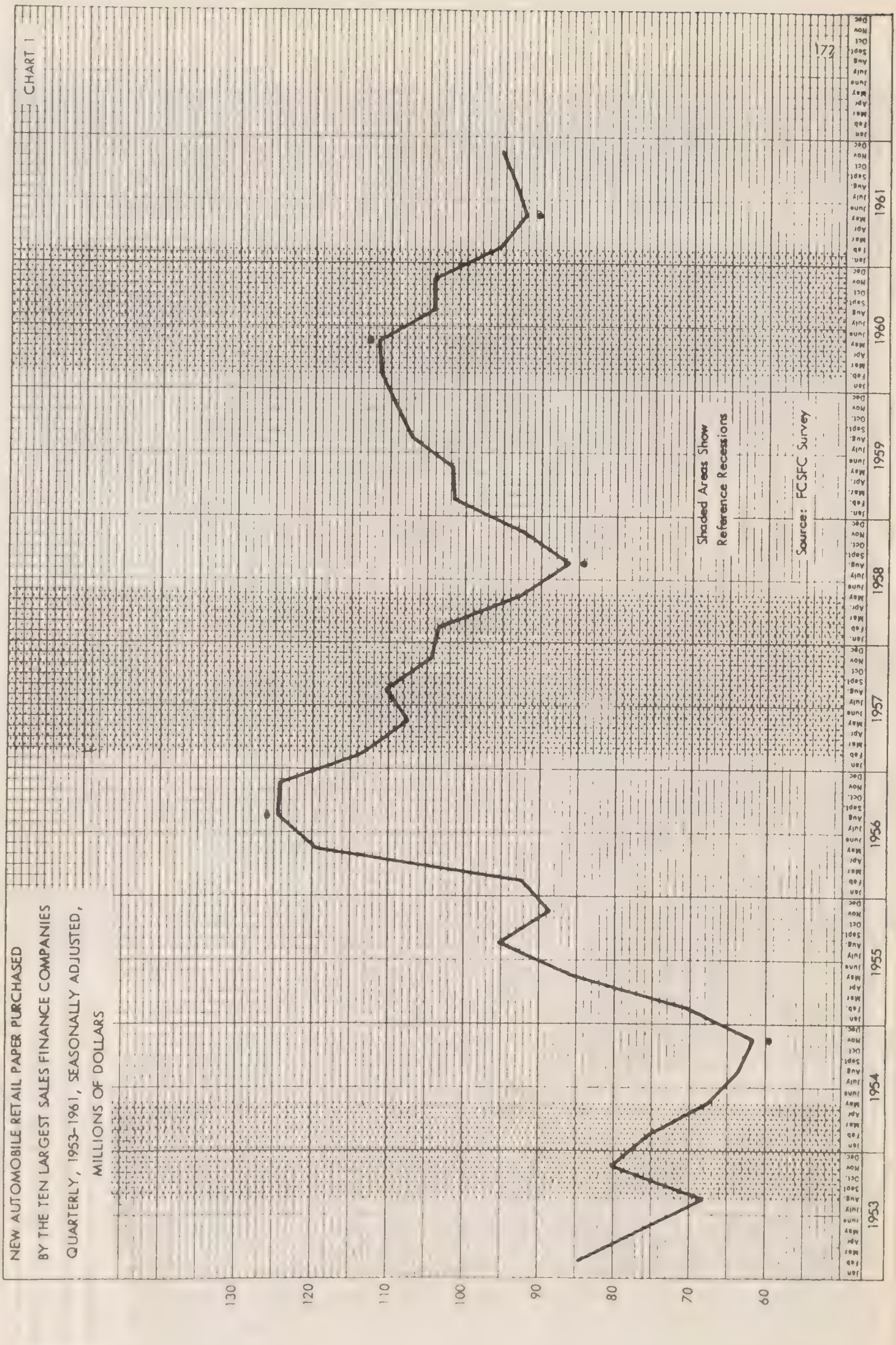
CYCLICAL TURNING POINTS AND AMPLITUDES IN TOTAL BANK LOANS OF THE TEN LARGEST SALES FINANCE COMPANIES AND REFERENCE DATES FOR CANADA 1954 - 1961

| | Reference Date | Turning Point - Bank Loans | Lead (or Lag), Bank Loans to Reference Date (in Quarters) | Total Bank Loans Outstanding (Millions of $) | Per Cent Change - Trough to Peak and Peak to Trough |
|---|---|---|---|---|---|
| Trough | II / 1954 | III / 1954 | (1) | 91 | |
| Peak | I / 1957 | IV / 1956 | 1 | 229 | +151.6 |
| Trough | II / 1958 | III / 1958 | (1) | 114 | - 50.2 |
| Peak | I / 1960 | III / 1959 | 2 | 198 | + 73.4 |
| Trough | I / 1961 | IV / 1961 A | (3) | 92 | - 53.5 |

A - Turning point not established; series shows decline at latest figure for IV/1961.

Nethercut & Young
Toronto, Ontario





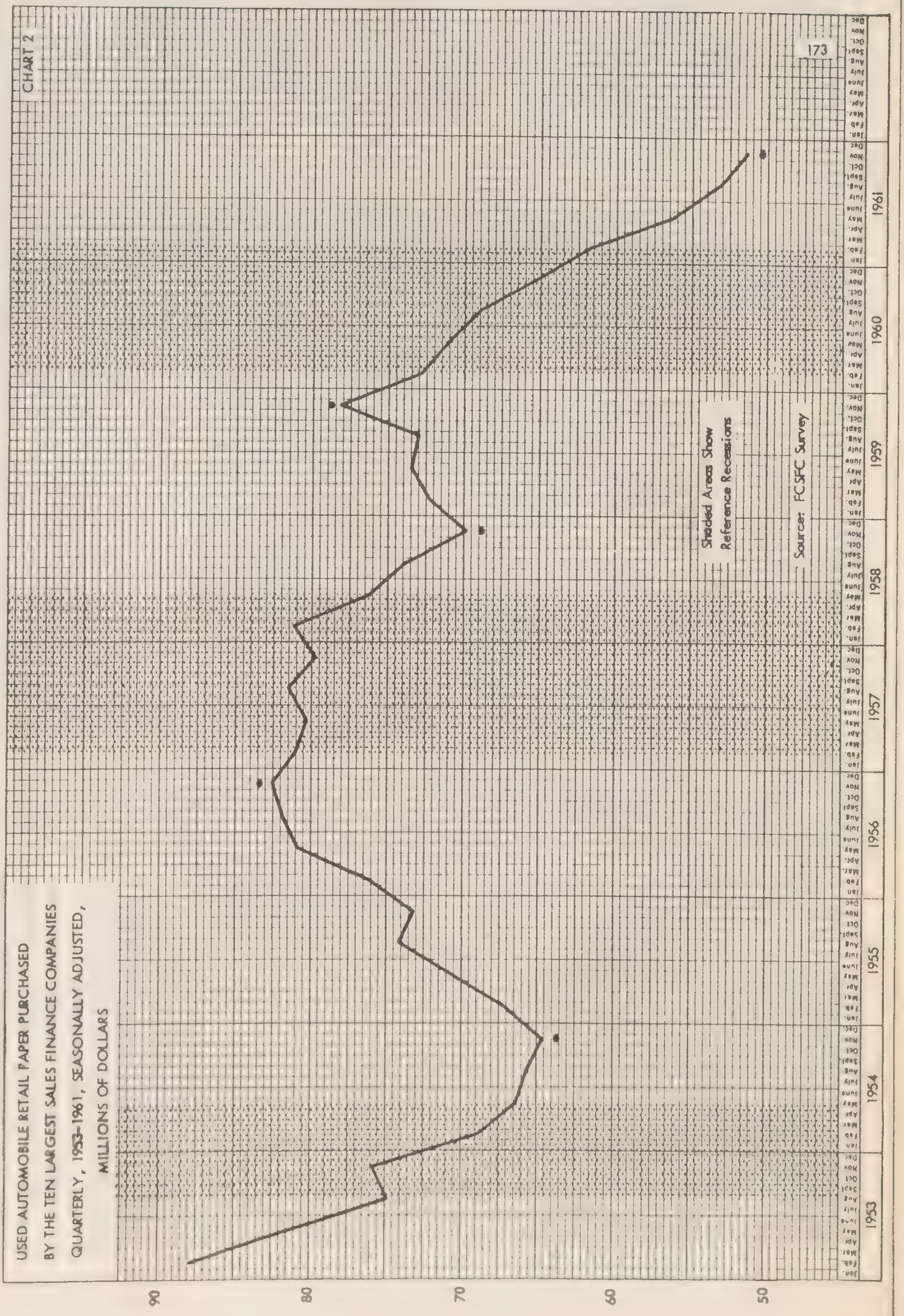


CHART 2
173
USED AUTOMOBILE RETAIL PAPER PURCHASED
BY THE TEN LARGEST SALES FINANCE COMPANIES
QUARTERLY, 1953-1961, SEASONALLY ADJUSTED,
MILLIONS OF DOLLARS
Shaded Areas Show
Reference Recessions
Source: FCSFC Survey
90
80
70
60
50
1953
1954
1955
1956
1957
1958
1959
1960
1961

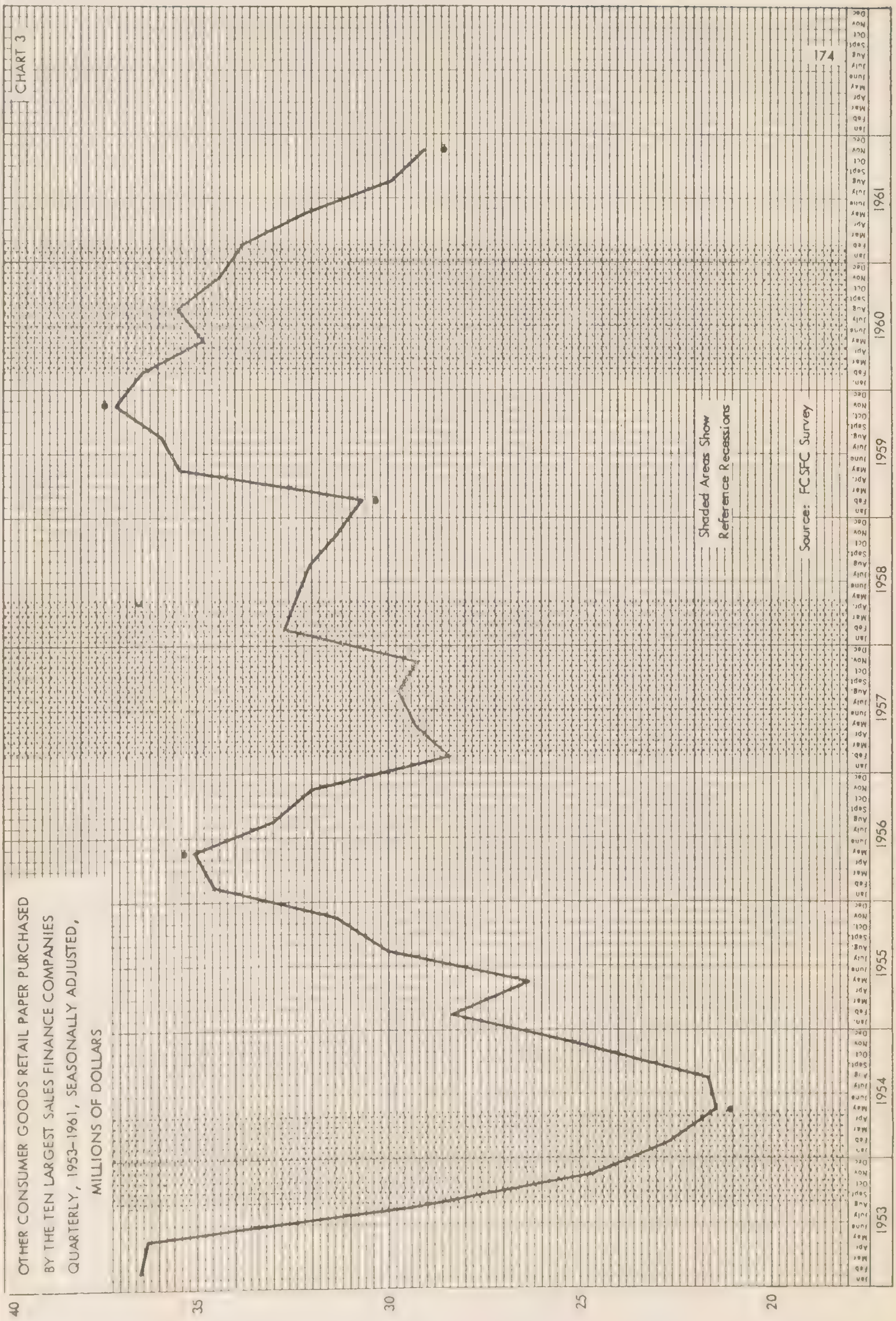


CHART 3
OTHER CONSUMER GOODS RETAIL PAPER PURCHASED
BY THE TEN LARGEST SALES FINANCE COMPANIES
QUARTERLY, 1953-1961, SEASONALLY ADJUSTED,
MILLIONS OF DOLLARS
Shaded Areas Show
Reference Recessions
Source: FCSFC Survey
174
40
35
30
25
20
1953
1954
1955
1956
1957
1958
1959
1960
1961

A P P E N D I X - I

CAC

CONTRACT DATE

**CONDITIONAL SALE CONTRACT**

| NEW USED | YEAR | MAKE | BODY (IF TRUCK ALSO TON CAPACITY) | NO. OF CYL | EXTRA EQUIPMENT |
|---|---|---|---|---|---|
| MODEL LETTER OR NO | SERIAL NUMBER | MOTOR NUMBER | LICENSE NUMBER | | ☐ RADIO ☐ POWER STEERING ☐ POWER SEATS ☐ AUTO TRANS ☐ POWER BRAKES ☐ POWER WINDOWS ☐ ☐ ☐ |

| PURCHASER | | SELLER | |
|---|---|---|---|
| NAME | | NAME | |
| NUMBER & STREET | | NUMBER & STREET | |
| CITY & PROVINCE | | CITY & PROVINCE | |

**DETAILS OF TRANSACTION**

| | |
|---|---|
| 1. TOTAL CASH PRICE (INCLUDING ALL TAXES AND EXTRA EQUIPMENT) | $ |
| CASH DOWN PAYMENT $ | |
| NET TRADE IN ALLOWANCE $ | |
| 2. TOTAL OF CASH DOWN PAYMENT AND TRADE-IN ALLOWANCE | $ |
| 3. BALANCE OF CASH PRICE | $ |
| 4. AMOUNT INCLUDED FOR PHYSICAL DAMAGE COVERAGES FOR PERIOD OF MONTHS | $ |
| IF NO AMOUNT SHOWN PURCHASER WILL OBTAIN FIRE THEFT AND COLLISION COVERAGES THROUGH — AGENT OR BROKER — ADDRESS | |
| 5. REGISTRATION FEE | $ |
| 6. UNPAID CASH BALANCE (SUM OF ITEMS 3, 4 & 5) | $ |
| 7. FINANCE CHARGE CHART # | $ |
| 8. DEFERRED TIME BALANCE (SUM OF ITEMS 6 AND 7) | $ |

which Purchaser promises to pay, at any office hereafter designated by the Holder hereof, in monthly instalments, in the amount of $ each and one final instalment of $ commencing , 19 or, if no date is specified, one month after contract date, and thereafter on the like date of each successive month, or as shown in schedule below.

THIS CAR WILL BE KEPT AT — ADDRESS — CITY OF — COUNTY OF — PROV

| | |
|---|---|
| 9. TOTAL TIME PRICE (INSERT FOR ALBERTA ONLY) (ITEMS 2 & 8) | $ |

**DESCRIPTION OF TRADE-IN AND ALLOWANCE**

| | |
|---|---|
| GROSS ALLOWANCE $ | YEAR & MAKE |
| LESS AMOUNT OWING $ | MODEL NO |
| NET ALLOWANCE $ | SERIAL NO |

"PURCHASER" (which means all purchasers jointly and severally) hereby purchases and agrees, upon the terms set forth below and on the reverse side hereof, to pay for the above-described property, complete with standard attachments and equipment, delivery and acceptance of which is hereby acknowledged by the Purchaser in good condition and as ordered, and in accordance with all representations and warranties made by the Seller.

Title to the car is retained by the Holder hereof (meaning Seller or Assigns) until the Deferred Time Balance and any other amounts owing hereunder or by reason of any revision of the terms of repayment are fully paid in money. Purchaser, having been quoted both a time price and a lesser cash price, has elected to buy the car for the time price which is the sum of the cash down payment, the trade-in allowance, if any, and the deferred time balance shown herein.

The car shall be at Purchaser's risk and Purchaser shall procure and maintain for the term hereof insurance against all physical damage risks at Purchaser's expense in such form and for such amount as Holder may require, the proceeds thereof to be payable as interests shall appear. Holder may, as creditor of Purchaser, purchase such insurance effective from the beginning of the term hereof and also at any time and from time to time thereafter, although nothing herein contained shall impose a duty upon the Holder so to do, and, in that event, Purchaser will reimburse Holder for the actual cost of such insurance to the extent that the same is not included in the time balance, the amount of such reimbursement, together with interest thereon at the rate of twelve percent (12%) per annum, to be paid in equal instalments, concurrently with the remaining unpaid instalments set forth above, and to constitute an additional obligation of Purchaser hereunder. Purchaser hereby assigns to Holder any moneys not in excess of the unpaid balance hereunder which may become payable under such and other insurance, including return or unearned premiums, and directs any insurance company to make payment direct to Holder to be applied to said unpaid balance and appoints Holder as attorney in fact to endorse any draft. In the event of any default

*(Continued on other side)*

| SCHEDULE OF UNEQUAL INSTALMENTS | | | | | |
|---|---|---|---|---|---|
| | AMOUNT DUE ON (MO DAY YEAR) | AMOUNT DUE ON (MO DAY YEAR) | AMOUNT DUE ON (MO DAY YEAR) | AMOUNT DUE ON (MO DAY YEAR) | AMOUNT DUE ON (MO DAY YEAR) |
| | AMOUNT DUE ON (MO DAY YEAR) | AMOUNT DUE ON (MO-DAY-YEAR) | AMOUNT DUE ON (MO DAY YEAR) | AMOUNT DUE ON (MO DAY YEAR) | AMOUNT DUE ON (MO DAY YEAR) |

**INSURANCE AGAINST LIABILITY FOR BODILY INJURY OR PROPERTY DAMAGE IS NOT INCLUDED IN THIS TRANSACTION**

DESIGNATION OF INSURED

FOR INSURANCE, IF ANY, TO BE OBTAINED IN CONNECTION HEREWITH, OTHER THAN INSURANCE ON THE PROPERTY, IT IS UNDERSTOOD THAT ONLY ONE PERSON, WHO MUST BE UNDER THE AGE OF 65, MAY BE INSURED AND PURCHASER DESIGNATES THE INDIVIDUAL WHOSE SIGNATURE AS OR ON BEHALF OF PURCHASER APPEARS BELOW * AND IN WHOSE NAME THE POLICY AND CERTIFICATE WILL BE ISSUED, AS THE PERSON TO BE INSURED (SUCH SIGNER FOR CORPORATION MUST BE AN OFFICER, FOR PARTNERSHIP A PARTNER)

PURCHASER AGREES THAT THE PROVISIONS ON THE REVERSE SIDE HEREOF ARE A PART OF THIS CONTRACT AND ACKNOWLEDGES RECEIPT OF A TRUE COPY HEREOF WHICH WAS COMPLETELY FILLED IN PRIOR TO PURCHASER'S EXECUTION.

*

SIGNATURE OF CO PURCHASER — CO PURCHASER'S FULL ADDRESS — SIGNATURE OF PURCHASER (PERSON TO BE INSURED AS ABOVE)

THE FOREGOING CONTRACT IS HEREBY ACCEPTED AND ASSIGNED TO CANADIAN ACCEPTANCE CORPORATION LIMITED IN ACCORDANCE WITH CONTENTS OF ASSIGNMENT ON REVERSE SIDE

DATED THIS ______ DAY OF ______ 19____ AT (CITY OR TOWN) ______ PROV ______

SALESMAN'S NAME — NAME OF SELLER — SIGNATURE (OFFICER'S TITLE IF COMPANY)

ORIGINAL

FORM 80 (8-61)

[illegible]

UAC — A CANADIAN COMPANY

# Conditional Sale Contract

UAC No....................

Seller hereby sells and Purchaser(s) hereby jointly and severally purchase(s) and agree(s) to pay for, subject to the terms and conditions herein set forth, the following described goods, including complete standard attachments and equipment, which Purchaser(s) have examined and delivery and acceptance of which in good order and condition and as ordered and in accordance with all representations, warranties and conditions, if any, of the Seller, is hereby acknowledged by the Purchaser(s).

For the total time price and upon the terms as to payment set forth below, viz:—

| FULL DESCRIPTION OF EQUIPMENT INDICATING MAKE, MODEL, YEAR, SERIAL AND MOTOR NUMBERS | CASH PRICE |
|---|---|
| | |

EQUIPMENT LOCATION.................................................................................................................
City (County/District) Province

The deferred balance to be paid in............................consecutive monthly instalments of $.........................each and......................... instalment(s) of $.........................on the.......................day of each month hereafter until paid in full, OR in instalments as set out in schedule of instalments hereunder, at any office of Union Acceptance Corporation Limited. Each instalment, if unpaid at maturity, shall bear interest at the rate of twelve per cent per annum and upon default in payment of any instalment upon the due date thereof all remaining instalments shall forthwith become due and payable without notice.

SCHEDULE OF MONTHLY INSTALMENTS

Commencing.................................................................19........

| Number | Amount | Number | Amount |
|---|---|---|---|
| (a) @ | | (g) @ | |
| (b) @ | | (h) @ | |
| (c) @ | | (i) @ | |
| (d) @ | | (j) @ | |
| (e) @ | | (k) @ | |
| (f) @ | | (l) @ | |

A promissory note has been given by Purchaser to Seller bearing even date herewith for the said deferred balance and payable in like instalments to those herein set forth. The said promissory note has not been given in payment of the said deferred balance but as a negotiable instrument on terms that Seller may discount, negotiate or otherwise deal with the same and, in such event, payment thereof shall be made to the holder thereof. Such holder shall not be subject to or affected by any equities existing at any time between Seller and Purchaser and shall be deemed conclusively to have acquired the same for value and to be a holder thereof in due course.

1. TOTAL CASH SELLING PRICE .............. $......................
   Including Taxes, if any.
2. DOWN PAYMENT
   Cash .............................. $.........................
   Trade-In $....................
   Less Lien $.................... $......................... $.........................
   TRADE-IN DESCRIPTION:
   .........................................................................
   .........................................................................
3. BALANCE OF CASH PRICE .............. $.........................
   (Item 1 Less Item 2)
4. AMOUNT INCLUDED FOR INSURANCE FOR..........Months .......................... $.........................
5. AMOUNT TO BE FINANCED .............. $.........................
6. REGISTRATION FEE $.........................
7. FINANCE CHARGE
   (......) Mos. $......................... $.........................
8. DEFERRED BALANCE .......................... $.........................
9. Aggregate of Price on Time Sale and All Costs Added Thereto .............................. $.........................
   (Complete for Alberta only) (Sum of 1, 4, 6 and 7)

THE PURCHASER AND SELLER AGREE THAT THE CONDITIONS OF SALE ENDORSED ON THE REVERSE SIDE HEREOF ARE HEREBY INCORPORATED IN THIS CONTRACT AND ACKNOWLEDGES RECEIPT OF A TRUE COPY OF THIS CONTRACT DULY FILLED IN AT THE TIME OF SIGNING.

IN WITNESS WHEREOF the parties have hereunto set their hands to this agreement this.................day of.........................................., 19.......

at...........................................................................Province of.............................
(Place where contract actually signed)

Seller Signs ............................................ Seller's Signature (Title if Corp., Co., or Part.) Purchaser Signs ............................................

By..................... By.....................

Street Town County Street Town County

Form 111-11-61-C — Original to UAC

Attached Note Must be Detached before It Is Signed

---

UAC No

| SCHEDULE OF INSTALMENTS | |
|---|---|
| No. | Amount |
| @ | |
| @ | |
| @ | |
| @ | |
| @ | |
| @ | |
| @ | |
| @ | |
| @ | |
| @ | |
| @ | |
| @ | |

NEGOTIABLE INSTRUMENT

$.............................. At.............................................................. Date 19 ..
(Place where note actually signed)

FOR VALUE RECEIVED, I, we, or either of us, promise to pay to the order of

the sum of

.....................................................................................................DOLLARS

at any office of Union Acceptance Corporation Limited, in.......................consecutive monthly instalments of $.......................each and....................... instalment of $....................... on the same day of each successive month, OR as set forth in the margin herein, the first instalment to be payable

19 , the final instalment to be the amount remaining unpaid. Each instalment, if unpaid, at maturity, shall bear interest at the rate of twelve per cent per annum and upon default in payment of any instalment upon the due date thereof all remaining instalments shall forthwith become due and payable without notice.

Sign here in ink

*Nethercut & Young*

*Toronto, Ontario*

A-239

**D A C** — **CONDITIONAL SALE CONTRACT** — **D A C**

Vendor hereby sells and Purchaser(s) hereby jointly and severally purchase(s) and agree(s) to pay for, subject to the terms and conditions herein, and on the reverse hereof, set forth, the following goods, delivery and acceptance of which in good condition and as ordered is hereby acknowledged by Purchaser(s).

| | New or Used | Year Model | Make Trade Name | Body Type If truck give tonnage | No. of Cyl. | Model No. or Letter | Serial Number | Motor Number | License Number |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| | | | | | | | | | |
| | | | | | | | | | |

**EXTRA EQUIP.:** AUTO. TRANS. ☐ OVERDRIVE ☐ POWER STEERING ☐ POWER BRAKES ☐ OTHER ☐

**PURCHASER'S STATEMENT** To induce the Vendor to enter into this contract and to induce Delta Acceptance Corporation Limited to purchase this contract and the promissory note herein referred to, the undersigned hereby makes to them the following specific representations, guaranteeing the truth thereof:—

PRINT NAME IN FULL — Age

No. and Street — Town or City

How long there? — HOME PHONE No. — Are you married ☐ Single ☐ — If married woman, what is husband's age?

Who is your Landlord? Name — Address

What was previous Home address? — How long there?

Name of firm where you work

What is your position? — How long have you worked there?

Wife's employment? — Address

How much do you earn? Salary ☐ Commission ☐ — How many dependents have you? — What is convenient date to make payment?

What was name and address of previous employer? — How long did you work there?

What Bank do you use? Branch — Address

Name two relatives other than immediate family (1) Name — Address

(2) Name — Address

From whom did you buy your last car? — On what date?

Was your last car financed? YES ☐ NO ☐

With what Company?

(1) Cash price including all taxes ........ $ ........
(2) Installation or other charges ........ $ ........
(3) **TOTAL DELIVERED PRICE** ........ $ ........
(4) Trade-In Allowance ........ $ ........ (Fair Valuation)
(5) Describe Trade ........
(6) Less encumbrance on trade. $ ........
(7) Equity ........ $ ........
(8) Cash payment ........ $ ........ $ ........
(9) Unpaid balance ........ $
(10) Insurance Premium ........ $ ........
(11) **AMOUNT FINANCED** ........ $ ........
(12) Add — Recording charge $
(13) Add — Finance Charge ........ $
(14) **TOTAL DEFERRED BALANCE** ........ $ ........

Aggregate of price on time sale and all costs added thereto (Item 8 + 14) . $ ........

The total Deferred Balance to be paid in ........ monthly payments of $........ AND one final payment of $........

Payments to commence ........, 19 ...... or as indicated in schedule below at office of Delta Acceptance Corporation Limited at ........ with interest thereon after maturity at the rate of 10% per annum.

THIS SCHEDULE TO BE USED ONLY FOR OTHER THAN EQUAL MONTHLY PAYMENTS

Schedule of Payments

| Paym't No. | Amount | Date Due | Paym't No. | Amount | Date Due |
|---|---|---|---|---|---|
| | $ | | | $ | |
| | $ | | | $ | |
| | $ | | | $ | |

REFERENCES — Name and Address of Firms and Finance Companies with whom you have done business on Credit. If none, give personal references.

(1) ........
Branch ........ City ........

(2) ........
Branch ........ City ........

It is agreed and declared that the terms and conditions set forth on the reverse hereof are part of this contract and binding upon the parties hereto. The Purchaser acknowledges receipt from Vendor of a true copy of this agreement. The value placed on the trade-in has been determined by the parties acting in good faith.

SIGNED IN DUPLICATE at ........ (Place where contract actually signed) this ........ day of ........, 19 ......

VENDOR SIGN TRADE NAME HERE IN INK ________ (PURCHASER(S) SIGN HERE IN INK) ________ (Person to be Insured)

By ........ (Signature and Title of Authorized Official) — By ........ (If Company, Signature and Title of Authorized Official)

Attached Note must be Detached before it is Signed.

NEGOTIABLE INSTRUMENT

This space to be used only for other than equal monthly payments

Schedule of Payments

| Paym't No. | Amount | Date Due |
|---|---|---|
| | $ | |
| | $ | |
| | $ | |
| | $ | |
| | $ | |
| | $ | |
| | $ | |
| | $ | |

$ ........ At ........ (Place where note actually signed) Date ........

FOR VALUE RECEIVED I promise to pay to the order of ........ (Vendor's Name here)

the sum of ........ DOLLARS

at the office of Delta Acceptance Corporation Limited in the city of ........

in monthly instalments of $ ........ each on the same day of each successive month, the first instalment to be payable ........, 19 ......, the final instalment to be the amount remaining unpaid; or in instalments as set out in the Schedule of Payments herein. Each instalment, if unpaid at maturity, shall bear interest at the rate of TEN PER CENT. per annum, from the date of maturity, and upon default in payment of any instalment upon the due date thereof all remaining instalments shall forthwith become due and payable without notice.

PURCHASER(S) SIGN HERE IN INK ________

R241U—Rev. 11/61

ORIGINAL COPY

Vethercut & Young

Toronto, Ontario

A-240

GMAC CAN 126 LI
Printed in CAN
76M-1-61

# CONDITIONAL SALE CONTRACT

ORIGINAL

____________________
Contract Number

The undersigned Seller hereby sells and the undersigned Purchaser or Purchasers jointly and severally hereby purchase(s) and agree(s) to pay for, subject to the terms and conditions hereinafter set forth, the following property, delivery and acceptance of which is hereby acknowledged by the Purchaser in good condition and as ordered.

| New or Used | Year Model | No. Cyl. | Make Trade Name * | Body Type | Model No. or Series | Manufacturer's Serial Number | Motor Number | License Number |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |

IF TRUCK Show | Gross Vehicle Weight or Tonnage | Lbs. Tons

ADDITIONAL EQUIPMENT: ____________________

For a TOTAL TIME PRICE computed as follows:

1. CASH SALE DELIVERED PRICE (including all taxes, accessories or extra equipment, if any) . . . . . . . . $________
2. AMOUNT OF DOWN PAYMENT $______ (Net Trade-In) Plus $______ (Cash) . . . . . . . . . . . . . . $________

   DESCRIPTION OF TRADE-IN: Year ______ Make ______ Model ______ Motor or Serial No. ______
3. UNPAID CASH PRICE BALANCE (difference between items 1 and 2) . . . . . . . . . . . . . . . . . . . . $________
4. COST OF REQUIRED AUTOMOBILE INSURANCE (Include this item if Purchaser has requested that his application for insurance be submitted by the Seller, or if Seller has otherwise agreed to include the cost of insurance in the Total Time Price). $________

   Covering Accidental Physical Damage only to the motor vehicle, as outlined below (check which applies), for a term of ______ months. (See Clause 8 on the reverse side for provisions requiring automobile insurance coverage for the full term of the contract).

   ☐ Comprehensive Coverage {including / excluding} $______ Deductible Collision.

   ☐ Fire-Theft and Additional Coverage {including / excluding} $______ Deductible Collision.

   **The Insurance, if any, referred to in this Contract does NOT include coverage for Bodily Injury and Property Damage caused to others.**
5. OTHER CHARGES, IF ANY ____________________ $________

   ____________________ $________
6. PRINCIPAL BALANCE (Add items 3, 4 and 5) . . . . . . . . . . . . . . . . . . . . . . . . . . . . $________
7. FINANCE CHARGE (Including Charge for Group Creditor Insurance on Purchaser's life) . . . . . . . . . . . $________
8. TIME (DEFERRED) BALANCE (Add items 6 and 7) . . . . . . . . . . . . . . . . . . . . . . . . . . $________
9. TOTAL TIME PRICE (Add items 2 and 8) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . $________

The Time Balance is payable at office of General Motors Acceptance Corporation of Canada, Limited to be hereinafter designated in ____ instalments of $______ each, commencing ____________ 19____, and on the same day of each successive month thereafter, or as indicated in space below. The final instalment shall equal the amount of time balance remaining due.

____________________

____________________

**The Purchaser understands and agrees that the provisions on the reverse side hereof, hereby incorporated by reference, constitute a part of this contract.**

Executed (one copy hereof delivered to and retained by the Purchaser) this ______ day of ____________ (DO NOT DATE OR EXECUTE ON SUNDAY), 19____

**In the event this contract is executed by more than one person as Purchaser, it is understood and agreed that the person upon whose life insurance will be procured is and shall be the Purchaser whose name appears FIRST below.**

SIGN IN INK

Purchaser Signs ____________________ Purchaser's Signature | ______ Street ______ Town ______ Prov.

Co-Purchaser Signs ____________________ | ______ Street ______ Town ______ Prov.

Seller Signs ____________________ Seller's Signature ______ Title if Corp., Co. or Part. | ______ Street ______ Town ______ Prov.

____________________ (Witness to Purchaser's Signature (Give Full Name)) | ____________________ Witness to Co-Purchaser's Signature (Give Full Name)

## DEALER'S RECOMMENDATION, ASSIGNMENT AND AGREEMENT

For value received, the undersigned does hereby sell, assign and transfer to General Motors Acceptance Corporation of Canada, Limited his, its or their right, title and interest in and to the within contract herewith submitted for purchase by it, together with the reserve, holdback or proceeds and the property covered thereby and authorizes said General Motors Acceptance Corporation of Canada, Limited to do every act and thing necessary to collect and discharge the same.

The undersigned certifies that said contract arose from the sale of the within described property, warranting that the title to said property was at the time of sale and is now vested in the undersigned free of all liens and encumbrances, that said property is as represented to the Purchaser of said property by the undersigned and that the statements made by the Purchaser of said property on the statement form attached hereto are true to the best of the knowledge and belief of the undersigned.

In consideration of your purchase of the within contract, the undersigned unconditionally, except as noted below, guarantees jointly and severally with the Purchaser, payment of the full amount remaining unpaid hereon and covenants if default be made in payment of any instalment herein to pay the full amount then unpaid to General Motors Acceptance Corporation of Canada, Limited upon demand, except as otherwise provided by the terms of the present General Motors Acceptance Corporation of Canada, Limited Retail Plan. Liability of the undersigned shall not be affected by any settlement, extensions, variation of terms of the within contract effected with, or by the discharge or release of the obligation of, the Purchaser or any other person interested, by operation of law or otherwise. Undersigned waives notice of acceptance of this guaranty and notices of non payment and non-performance.

This Agreement shall apply to and bind the heirs, executors, administrators, successors and assigns of the undersigned and shall enure to the benefit of and be enforceable by General Motors Acceptance Corporation of Canada, Limited, its successors and assigns.

DATED at ________________

this ______ day of ____________ 19____

Seller Signs ____________________ Seller's Signature ______ Title if Corp., Co. or Part.

(For use in all Provinces except Alberta)

**IAC CONDITIONAL SALE CONTRACT**

TO PURCHASER: PLEASE READ CONDITIONS ON REVERSE SIDE CAREFULLY.

FOR I.A.C. USE ONLY

PURCHASER'S STATEMENT (A CO SIGNER MUST COMPLETE A SEPARATE STATEMENT)

MR. MRS. MISS ☐☐☐ | GIVEN NAME AND INITIAL | ← USE BLOCK LETTERS → | SURNAME

MAIL ADDRESS (USE BLOCK LETTERS) | CORRESPONDENCE IN: ENGLISH ☐ FRENCH ☐

RESIDENCE ADDRESS (IF DIFFERENT) | HOW LONG | RES. PHONE NO. | AGE | M ☐ S ☐ | NO. OF DEPENDENTS | IF MARRIED WOMAN HUSBAND'S NAME | AGE

LANDLORD'S NAME - ADDRESS | PREVIOUS HOME ADDRESS | HOW LONG

EMPLOYED BY | HOW LONG | BUS. PHONE NO. | OCCUPATION - POSITION | APPROX. MONTHLY INCOME | COMMISSION ☐ SALARY ☐

PREVIOUS EMPLOYMENT | HOW LONG | NAME AND ADDRESS OF BANK | HAVE YOU AN I.A.C. CREDIT REFERENCE CARD: YES ☐ NO ☐

LAST CAR BOUGHT FROM | ADDRESS | DATE | FINANCED BY | BALANCE OWING $

NAME AND ADDRESS OF TWO RELATIVES (OR FRIENDS) OTHER THAN HUSBAND OR WIFE (1) NAME ______ ADDRESS ______ (2) NAME ______ ADDRESS ______

REFERENCES NAME OF FIRMS AND FINANCE COMPANIES WITH WHOM YOU ARE DOING OR HAVE DONE BUSINESS ON CREDIT (IF NONE, GIVE PERSONAL REFERENCES.)

(1) NAME ______ ADDRESS ______ (2) NAME ______ ADDRESS ______

**INSURANCE**

COLLISION AND COMPREHENSIVE INSURANCE IS DESIRABLE ON ALL VEHICLES. IT IS REQUIRED WHERE THE UNPAID BALANCE TO BE FINANCED EXCEEDS $300.00. PLEASE CHECK ONE OF THE FOLLOWING SQUARES.

☐ PLEASE INCLUDE THE PREMIUM IN THIS CONTRACT. A COMPLETE APPLICATION TO MERIT INSURANCE COMPANY IS ATTACHED.

☐ THE REQUIRED INSURANCE COVERAGE HAS BEEN PROCURED THROUGH ______ (NAME OF AGENT)

______ (ADDRESS OF AGENT) ______ (NAME OF INSURANCE COMPANY)

EVIDENCE OF SUCH INSURANCE IS ATTACHED - OR WILL BE PROVIDED - SHOWING THAT THE INTERESTS OF PURCHASER, VENDOR/ASSIGNEE ARE PROTECTED.

Vendor hereby sells and Purchaser(s) hereby jointly and severally purchase(s) and agree(s) to pay for, subject to the terms and conditions herein and on the reverse hereof, set forth, the following goods, delivery and acceptance of which in good condition and as ordered is hereby acknowledged by Purchaser(s).

| | YEAR | NEW OR USED | MAKE - TRADE NAME | BODY TYPE (IF TRUCK GIVE TONNAGE) | NO. OF CYL | MODEL NO. OR LETTER | SERIAL NUMBER | MOTOR NUMBER | LICENCE NO. |
|---|---|---|---|---|---|---|---|---|---|
| ONE | | | | | | | | | |

CASH PRICE (INCLUDING ALL TAXES) ...... $......
Add—LICENSE FEE ...... $......
EXTRA EQUIPMENT (describe) ......
...... $______
TOTAL DELIVERED PRICE ...... $...... A
Less—CASH PAYMENT ...... $......
TRADE-IN (MAKE YEAR BODY TYPE) ...... $ (FAIR VALUATION) $______
UNPAID BALANCE ...... $______
Add—INSURANCE PREMIUM (Indicate coverage below)
☐ Fire-Theft ☐ $ ...... Deductible Collision
☐ Public Liability and Property Damage ...... $______ B
AMOUNT FINANCED ...... $......
Add—FINANCE CHARGE FOR ...... MONTHS TERM $ ...... C
RECORDING FEE ...... $ 1.00 D
TOTAL DEFERRED PAYMENTS ...... $______
AGGREGATE OF PRICE ON TIME SALE AND ALL COSTS ADDED THERETO $ ...... (SUM OF A, B, C AND D ABOVE)

Said Total Deferred Payments are payable at the office of Industrial Acceptance Corporation Limited, at ...... in monthly instalments of $ ...... on the same day of each successive month and commencing on the ...... day of ...... 19 ...... (CONVENIENT DATE WITHIN 45 DAYS) the final instalment being for the amount remaining unpaid; OR in instalments as set out in the Schedule of Payments hereunder; with interest thereon after maturity at the rate of 12% per annum. A negotiable promissory note has been given by Purchaser to Vendor as evidence of, but not in payment for, said Total Deferred Payments.

THIS SPACE TO BE USED ONLY FOR OTHER THAN EQUAL MONTHLY PAYMENTS

SCHEDULE OF PAYMENTS

| PYM'T NO. | AMOUNT | DATE DUE | PYM'T NO. | AMOUNT | DATE DUE |
|---|---|---|---|---|---|
| | $ | | | $ | |
| | $ | | | $ | |
| | $ | | | $ | |
| | $ | | | $ | |

It is agreed and declared that the terms and conditions set forth on the reverse hereof are part of this contract and binding upon the parties hereto. The Purchaser acknowledges receipt from Vendor of a true copy of this agreement. The value placed on the trade-in has been determined by the parties acting in good faith.

SIGNED IN DUPLICATE at ...... (Place where contract actually signed) on ...... (Date) ...... 19

(Vendor sign Trade Name here) ______ (Purchaser sign here) ______

(Co-Signer) ______

By ...... (Signature and Title of Authorized Official)

(004611) REV. 1/61 Salesman's Name ...... C N 7-ALTA

I.A.C. A/C. No. ______

NEGOTIABLE INSTRUMENT

Only use this space for other than equal monthly instalments

SCHEDULE OF PAYMENTS

$ ...... At ...... (PLACE WHERE NOTE ACTUALLY SIGNED) Date ...... 19

FOR VALUE RECEIVED I promise to pay to the order of ...... (VENDOR'S NAME HERE)

the sum of ...... /100 DOLLARS

at the office of INDUSTRIAL ACCEPTANCE CORPORATION LIMITED in the city of ......

in monthly instalments of $ ...... each on the same day of each successive month, the first instalment to be payable ...... 19 ...... the ... amount remaining unpaid OR ... instalments as set out in the Schedule of Payments herein. Each instalment, if unpaid at maturity, shall bear interest at the ... TWELVE PER CENT per annum from the date of maturity and upon default in payment of any instalment upon the due date thereof all remaining instalments shall forthwith become due and payable without notice.

Purchaser sign here ______

(Co-Signer) ______

FORM 6 V-10 GENERAL

Traders

# CONDITIONAL SALE CONTRACT

FOR TRADERS USE ONLY ACCT NO

PURCHASER - BE SURE CONTRACT IS COMPLETED AND UNDERSTOOD BEFORE YOU SIGN.

The undersigned Vendor sells and the undersigned Purchaser (which means all purchasers jointly and severally) purchases and covenants and agrees to pay for, subject to the terms and conditions on the reverse side hereof, the following Property receipt of which in good order and condition is hereby acknowledged by Purchaser:

DESCRIPTION OF PROPERTY AND TERMS OF SALE

| | NEW OR USED | YEAR | NO CYL'S | TRADE NAME - MAKE | MODEL OR TYPE OF BODY | IF TRUCK GROSS WEIGHT TONS | SERIAL NUMBER | MOTOR NUMBER | LICENCE NUMBER |
|---|---|---|---|---|---|---|---|---|---|
| ONE | | | | | | | | | |

| COLOUR(S) | EXTRA EQUIPMENT - AUTOMOBILES | EXTRA EQUIPMENT - TRUCKS | Dump Body Description |
|---|---|---|---|
| | ☐ RADIO ☐ AUTOMATIC TRANSMISSION ☐ POWER STEERING ☐ POWER BRAKES ☐ POWER SEAT ☐ POWER WINDOWS | HOIST ☐ TRUCK TIRE SERIAL NUMBER | |

SCHEDULE OF INSTALMENTS - FOR IRREGULAR REPAYMENT

DUE DATE ▶ EACH INSTALMENT IS DUE ON THE FRIDAY, OF THE MONTHS DESCRIBED BELOW.

NOTE SKIP MONTHS IF ANY ARE TO BE DESCRIBED

| NUMBER OF MONTHS | FROM (INCLUSIVE) MONTH | YR | TO (INCLUSIVE) MONTH | YR | AMOUNT OF EACH INSTALMENT |
|---|---|---|---|---|---|
| | | | | | |

| | | | |
|---|---|---|---|
| CASH SELLING PRICE | | $ | (1) |
| ADD-EXTRA EQUIPMENT (describe above) | | $ | (2) |
| ADD-PROVINCIAL SALES TAX (If any) | | $ | (3) |
| TOTAL DELIVERED PRICE | | $ | (4) |
| DEDUCT: TRADE-IN ALLOWANCE ▶ DESCRIBE | $ | | (5) |
| DEDUCT: LESS AMOUNT OWING TO ▶ DESCRIBE | $ | | (6) |
| EQUITY IN TRADE-IN | $ | | (7) |
| ADD-CASH DOWN PAYMENT | $ | $ | (8) |
| BALANCE OF PRICE | | $ | (9) |
| ADD-INSURANCE PREMIUM FOR MONTHS DESCRIBE COVERAGE | | $ | (10) |
| UNPAID BALANCE TO BE FINANCED | | $ | (11) |
| ADD-FINANCE CHARGE-(CHART NO. ) | | $ | (12) |
| TOTAL DEFERRED BALANCE (AMOUNT OF NOTE) | | $ | (13) |
| ALBERTA ONLY ▶ AGGREGATE OF PRICE ON TIME SALE AND ALL COSTS ADDED THERETO (SUM OF ITEMS 8 AND 13 ABOVE) | | $ | |

Payable, in consecutive monthly instalments of $ payable on the Friday of each month commencing in the month of 19 , or as indicated in Schedule of Instalments. In the event of default in payment of any instalment when due, entire balance shall at any time at the option of the Vendor and without notice to the Purchaser immediately become due and payable and each instalment after maturity shall thereafter bear interest at the rate of 12% per annum.

It is agreed between the parties that the terms and conditions set forth on the reverse side hereof are part of this contract and are binding on the parties hereto. Purchaser acknowledges having received a copy of this contract. This contract is hereby accepted by Vendor and assigned by Vendor to Traders Finance Corporation Limited, and Vendor guarantees payment by Purchaser in accordance with terms of assignment and guarantee on reverse side hereof.

DATED AT (CITY OR TOWN) (PROVINCE) THIS DAY OF 19

VENDORS' SIGNING AREA

VENDOR'S CORPORATE OR TRADE NAME

SIGNATURES AND TITLES OF AUTHORIZED OFFICIALS BY ______ BY ______

VENDOR'S ADDRESS STREET NUMBER & NAME

CITY OR TOWN PROVINCE

IMPORTANT

| | |
|---|---|
| 1st FRIDAY ☐ 1-7th | 2nd FRIDAY ☐ 8-14th |
| 3rd FRIDAY ☐ 15-21st | 4th FRIDAY ☐ 22-28th |

PURCHASERS' AND WITNESS' SIGNING AREA

PURCHASER(S) SIGN BELOW IN INK

(IF PURCHASED AN INDIVIDUAL PRINT NAME HERE IN BLOCK LETTERS)

PURCHASER'S ADDRESS STREET NUMBER & NAME CITY OR TOWN & PROVINCE

WITNESS TO PURCHASER'S SIGNATURE (SALESMAN)

SCHEDULE OF INSTALMENTS - FOR IRREGULAR REPAYMENT

DUE DATE ▶ EACH INSTALMENT IS DUE ON THE FRIDAY, OF THE MONTHS DESCRIBED BELOW

NOTE SKIP MONTHS IF ANY ARE TO BE DESCRIBED

| NUMBER OF MONTHS | FROM (INCLUSIVE) MONTH | YR | TO (INCLUSIVE) MONTH | YR | AMOUNT OF EACH INSTALMENT |
|---|---|---|---|---|---|
| | | | | | |

IF REQUIRED USE SCHEDULE OF INSTALMENTS ON REVERSE

$ AT (CITY OR TOWN) (PROVINCE) DATE 19

FOR VALUE RECEIVED THE UNDERSIGNED PROMISES TO PAY TO THE ORDER OF (VENDOR'S CORPORATE OR TRADE NAME) THE SUM OF DOLLARS

AT PAR AT THE OFFICE OF TRADERS FINANCE CORPORATION LIMITED, TORONTO, ONT.

PAYABLE IN CONSECUTIVE MONTHLY INSTALMENTS OF $ , PAYABLE ON THE FRIDAY OF EACH MONTH COMMENCING IN THE MONTH OF 19 OR AS INDICATED IN SCHEDULE OF INSTALMENTS. UPON DEFAULT IN PAYMENT OF ANY INSTALMENT UPON DUE DATE THEREOF ALL REMAINING INSTALMENTS SHALL FORTHWITH BECOME DUE AND PAYABLE WITHOUT NOTICE TOGETHER WITH INTEREST ON EACH INSTALMENT AFTER MATURITY AT 12% PER ANNUM.

NEGOTIABLE INSTRUMENT

ACCOUNT NO

## CONDITIONAL SALE CONTRACT

Vendor hereby sells and Purchaser(s) hereby jointly and severally purchase(s) and agree(s) to pay for, subject to the terms and conditions herein set forth, the following goods, delivery and acceptance of which in good condition and as ordered is hereby acknowledged by Purchaser(s).

| QUANTITY | NEW OR USED | YEAR MODEL | MAKE TRADE NAME | BODY TYPE OR DESCRIPTION OF GOODS | MODEL | SERIAL NUMBER | MOTOR NUMBER | LICENSE NUMBER |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| | | | | | | | | |

VENDOR'S NAME AND ADDRESS ..........

CASH SELLING PRICE (Including all taxes) $..........
ADD—LICENSE FEE (if any) .......... $..........
INSTALLATION CHARGES .......... $..........
TRANSPORTATION CHARGES .......... $..........
EXTRA EQUIPMENT (describe)
..........
.......... $
1. TOTAL DELIVERED AND INSTALLED CASH PRICE .......... $..........
DEDUCT—INITIAL PAYMENT
Cash .......... $..........
Trade-in .......... $.......... $
(description)
UNPAID BALANCE .......... $..........
2. ADD—INSURANCE PREMIUM .......... $..........
..........
(describe coverage)
AMOUNT FINANCED .......... $..........
3. ADD—FINANCING CHARGES .......... $..........
4. RECORDING OR FILING FEES .......... $ 1.50
TOTAL DEFERRED PAYMENTS .......... $
Aggregate of Price on Time Sale and all costs added thereto $..........
(sum of 1, 2, 3, 4 above)

Said Total Deferred Payments to be paid in .......... (number) equal monthly instalments of $ .......... on the same day of each successive month and commencing on the .......... day of .......... 19.........., the final instalment being the amount remaining unpaid; or in instalments as set out in the Schedule of Payments herein.

NOTE: In the event of default in payment of any instalment when due all remaining instalments shall immediately become due and payable without notice and the entire unpaid balance shall thereafter bear interest at the rate of 12% per annum.

Said Total Deferred Payments are payable at the office of United Dominions Corporation (Canada) Limited at .......... . A promissory note has been given by the Purchaser to Vendor as evidence of, but not in payment for, said Total Deferred Payments. Such note may be negotiated and in such event payment thereon shall be made to the holder thereof and the holder thereof shall not be affected by any equities existing between the Vendor and Purchaser but shall be a holder in due course.

**PURCHASER'S STATEMENT** To induce the vendor to enter into this contract and to induce United Dominions Corporation (Canada) Limited to purchase this contract and the promissory note herein referred to, the undersigned hereby makes to them the following specific representations, guaranteeing the truth thereof:—

If purchaser is a firm or corporation complete questions which are applicable.

PRINT NAME IN FULL | Age
No. and Street | Town or City
How long there? | HOME PHONE No. | Married ☐ Single ☐ | Number of Dependents
Previous address | How long there?
Name and address of employer | Business phone number
What is your position? | How long have you worked there?
How much do you earn? | Commission ☐ Salary ☐ | Convenient date for payments
Name and address of previous employer | How long there?
What bank do you use? | Branch Address
Name two relatives or friends other than immediate family | (1) Name Address
(2) Name Address
Was your last car financed? | With what Company?

REFERENCES—Names and addresses of firms and finance companies with whom you have done business on credit, if none, give personal references.

1. ..........
2. ..........

This space to be used for other than equal monthly payments.

Schedule of Payments

| PYM'T NO. | AMOUNT | DUE DATE | PYM'T NO. | AMOUNT | DUE DATE |
|---|---|---|---|---|---|
| | | | | | |
| | | | | | |
| | | | | | |

It is agreed and declared that the terms and conditions set forth on the reverse hereof are part of this contract and binding upon the parties hereto. The Purchaser acknowledges receipt from Vendor of a true copy of this agreement. The value placed on the trade-in has been determined by the parties acting in good faith.

SIGNED IN DUPLICATE at .......... this .......... day of .......... 19

(Purchaser sign here in ink) __________

By ..........
(If Company, Signature and Title of Authorized Official)

Salesman's Name ..........

12-60 **Attached Note must be Detached before it is Signed.** 81

NEGOTIABLE INSTRUMENT

This space to be used only for other than equal monthly payments.

Schedule of payments

| PYM'T No. | AMOUNT | DATE DUE |
|---|---|---|
| | $ | |
| | $ | |
| | $ | |
| | $ | |
| | $ | |
| | $ | |

$.......... At .......... Date .......... 19

FOR VALUE RECEIVED I promise to pay to the order of

..........
(Vendor's name here)

the sum of .......... DOLLARS

at the office of United Dominions Corporation (Canada) Limited at ..........

in monthly instalments of $ .......... each on the same day of each successive month, the first instalment to be payable .......... 19 , the final instalment to be the amount remaining unpaid; OR in instalments as set out in the Schedule of Payments herein. In the event of default in payment of any instalment when due all remaining instalments shall immediately become due and payable without notice and the entire balance shall thereafter bear interest at the rate of TWELVE PER CENT per annum.

Purchaser Sign Here In Ink __________

[illegible]

1. TOTAL DEFERRED AND INSTALLMENT [illegible]

[illegible] INITIAL PAYMENT [illegible]

2. [illegible] INSURANCE [illegible]

[illegible] $

4. APPROXIMATE [illegible] $

TOTAL [illegible] PAYMENT [illegible]

[illegible] monthly installments of $ [illegible] on the [illegible] day of [illegible] and continuing on the [illegible] day of

19 [illegible] the final installment being the [illegible]

[illegible] in the event of [illegible] payment of any installment [illegible]

[illegible] Commission [illegible]

A [illegible] has been given by [illegible] Such note may be [illegible]

[illegible]

Nethercut & Young
Toronto, Ontario

A-244

## CONDITIONAL SALE CONTRACT

TRANS No. ..........

(City or Town) (County) (Province) .................... 19 .... (Date) AVOID MISTAKE—FILL OUT COMPLETELY

Between .................... (Print Purchaser's Name) (No., Street, Route or Box) (City or Town) (County) (Province) Purchaser

And .................... (Dealer's Name) (Give Correct Legal Address) (City or Town) (County) (Province), Seller

Purchaser (meaning all of Undersigned, jointly and severally) hereby purchases from the Seller (meaning Seller above named and its assignee) on the following terms and conditions, AND UPON THE TERMS AND CONDITIONS SET FORTH ON THE REVERSE SIDE OF THIS CONTRACT WHICH ARE INCORPORATED HEREIN BY REFERENCE AND MADE A PART HEREOF, and Purchaser acknowledges delivery, examination and acceptance of the following described Motor Vehicle (whether automobile, truck, tractor, trailer, motorcycle or farm equipment), herein called "Car", in its present condition, for the Total Time Price (sum of Items 2 and 8). Purchaser agrees to pay the Time Price Balance shown herein to the order of Seller at the office of Commercial Credit Corporation Limited at .................... , in instalments as hereinafter provided, with interest thereon after maturity at 10% per annum, until the Total Time Price is paid in full.

| YEAR MODEL | NEW OR USED | MAKE | MODEL No. | TYPE OF BODY |
|---|---|---|---|---|
| | | | | |

| SERIAL No. | MOTOR No. | LICENSE No. | IF TRUCK TONS CAPACITY |
|---|---|---|---|
| | | | |

Car will be kept at No. .................... (Street) (City or Town) (County) (Province)
Purchaser agrees not to remove the Car from the registration district in which said address is located without the written consent of Seller.

### RECORD OF TRANSACTION

| | | |
|---|---|---|
| 1. Total Cash Sales Price including all taxes, accessories, extras (Transportation Charges of $.......... included) | $ | |
| 2. Deduct: Down Payment: Trade-in: ........ $ | | |
| Make ________ Year ____ Serial No. | | |
| Less Lien Owing (Lienholder) $________ | | |
| Net Trade-in Allowance .......... $ .......... | | |
| Cash .......... $ .......... | | |
| Total Down Payment | $ | |
| 3. Balance of Cash Sales Price | $ | |
| 4. Add: Insurance Premium .... | $ | |
| 5. Registration Costs | $ | |
| 6. Unpaid Balance .......... | $ | |
| 7. Add: Time Price Differential | $ | |
| 8. Time Price Balance | $ | |
| **FOR ALBERTA ONLY** 9. Aggregate of Price on Time Sale and All Costs Added thereto (herein called "Total Time Price") .......... | $ | |

DEFAULT CHARGE: Interest at rate of 10% per annum on any instalment in arrears. Attorney's fee of 15% of debt, if employed.

**MONTHLY INSTALMENTS** Payable in .......... monthly instalments of $.................... and a final instalment of $ .................... , the first instalment payable .................... (month) (day) (year), *and each successive instalment payable on the same day of each and every month thereafter until the Total Time Price is paid in full.
*If no date is inserted in blank, the first instalment is payable one month from date of contract.

### IRREGULAR PAYMENTS

Payable in accordance with the Schedule below

| Amount | Date Due | Amount | Date Due |
|---|---|---|---|
| $ | | $ | |
| $ | | $ | |
| $ | | $ | |

1. The title, ownership and right of property in and to the Car shall remain in Seller, until all amounts due hereunder or rearrangements thereof are fully paid in cash. The payment of any amounts due hereunder may be renewed or extended by Seller without passing title of the Car to Purchaser.
2. The loss, injury or destruction of the Car shall not release Purchaser from the payment hereof. Purchaser agrees to obtain and keep in force fire, theft and collision insurance on the Car and other insurance requested by Seller. Such insurance shall be in form, amount, and written by an insurer satisfactory to Seller. If Purchaser fails to purchase any insurance requested by Seller, Seller, as a creditor of Purchaser, may purchase such insurance, at Purchaser's expense. If the cost thereof is not included in the Total Time Price, Purchaser agrees to pay the same to Seller, on demand. Purchaser hereby assigns to Seller the proceeds of all such insurance (including any refund of premiums) to the extent of the unpaid portion of the Time Price Balance, and directs any insurer to make payment directly to Seller and appoints Seller as Attorney in Fact to endorse any cheque or draft, and to apply such proceeds to the payment of instalments due or to become due hereunder.

Purchaser represents that he has read both sides of this contract, and that it was completely filled in at the time of signing. Purchaser hereby acknowledges receipt of a true executed copy hereof. If the cost of Creditor Life Insurance is included in the Total Time Price, Purchaser designates the individual whose signature first appears as the person to be covered thereby.

.................... (Purchaser Sign Here) .......... (Seal)

(Purchaser Sign Here) (Seal)

"If the risk of public liability and property damage is included in the insurance premium herein provided for, the Purchaser agrees that the obligation of the seller is merely to make application for such insurance on behalf of the purchaser and that the seller is under no obligation to obtain same, and further, that the purchaser is not covered by any such insurance unless and until a policy therefor is actually issued and received by the purchaser."

**DEALER'S ASSIGNMENT**

FOR VALUE RECEIVED, and pursuant to the Terms of Assignment shown on the reverse hereof, Undersigned hereby sells, assigns and transfers to Commercial Credit Corporation Limited, its successors and assigns, all of its right, title and interest in and to the above contract and the Car referred to therein, with power to take legal proceedings in the name of Undersigned or itself. Commercial Credit Corporation Limited, is hereby authorized to correct patent errors in said contract and all other papers executed, endorsed or assigned in connection therewith.

(Dealer Sign Here) (Seal)

Signed and sealed this .......... day of .......... , 19 .... (Owner, Officer or Firm Member) (Seal)

Form C-1300 C 25M-11-61

LAURENTIDE FINANCE

# CONDITIONAL SALES CONTRACT

1. PURCHASER'S FULL NAME — AGE — ☐ MARRIED ☐ SINGLE ☐ DIV. OR WID. — WIFE'S FIRST NAME — NO. CHILDREN
2. HOME ADDRESS — HOW LONG — PHONE — ☐ OWN HOME ☐ RENT — MO. PMT. OR RENT — HOW LONG IN CITY
3. LANDLORD OR MORTGAGE HOLDER — ADDRESS — PHONE
4. FORMER ADDRESS — HOW LONG — OWN FURNITURE ☐ YES ☐ NO
5. EMPLOYED BY — ADDRESS — PHONE — MONTHLY SALARY $
6. OCCUPATION (WORKS AS) — HOW LONG — FORMER EMPLOYER — HOW LONG — OTHER INCOME AND SOURCE
7. WIFE WORKS AS — HOW LONG — WIFE EMPLOYED BY — BUSINESS ADDRESS & PH. — MONTHLY SALARY $
8. BANK—BRANCH & ADDRESS — ☐ CURRENT ☐ SAVINGS — AUTO—YEAR, MAKE & LIC. NO. — ☐ BALANCE OWING ☐ CLEAR — TOTAL INCOME $
9. NAME TWO RELATIVES NOT LIVING WITH PURCHASER (IN VICINITY) — ADDRESS — PHONE — HOW RELATED
10.

| | CREDIT REFERENCE | ADDRESS | ITEM | BALANCE OWING | DATE OPENED | HIGH CREDIT | MO. PMT | DATE OF LAST PMT |
|---|---|---|---|---|---|---|---|---|
| 11 | | | | | | | | |
| 12 | | | | | | | | |
| 13. | | | | | | | | |
| 14. | | | | | | | | |

The purchaser certifies and warrants that the credit information given by purchaser as set forth in the above statement and given in connection with this transaction is true and correct.

The undersigned Vendor hereby sells and the undersigned Purchaser or Purchasers, jointly and severally hereby purchase(s) and agree(s) to pay for, subject to the terms and conditions hereinafter set forth, the following property, delivery and acceptance of which is hereby acknowledged by the Purchaser in good condition and as ordered.

| 15. DESCRIPTION OF PROPERTY—GIVE MAKE OR TRADE NAME | NEW-USED | MODEL | MOTOR NO. | SERIAL NO. | CASH PRICE |
|---|---|---|---|---|---|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

CASH SELLING PRICE
$ ________ + $ ________ + $ ________ $ ________ (1)
(PROPERTY) (ACCESSORIES) (SALES TAX)
Less—CASH PAYMENT $ ________
TRADE-IN ALLOWANCE $ ________
LESS LIEN (IF ANY) $ ________ $ ________ $ ________ (2)
DESCRIBE TRADE-IN ________
UNPAID CASH BALANCE . . . . $ ________ (3)
Add—INSURANCE PREMIUM ________
________ $ ________ (4)
(DESCRIBE COVERAGE)
REGISTRATION COSTS . . . . . . $ ________ (5)
AMOUNT FINANCED . . . . . . $ ________ (6)
Add—FINANCE CHARGES . . . . $ ________ (7)
DEFERRED BALANCE . . . . . $ ________ (8)
TOTAL TIME PRICE (ITEM 2 + 8) $ ________
**(For use in Province of Alberta only)**

The Deferred Balance is payable at the office of **LAURENTIDE FINANCIAL CORPORATION LTD.** to be hereinafter designated by it in ____ monthly instalments of $ ________ on the same day of each successive month commencing ________ 19 ____

The final instalment payable hereunder shall equal the amount of the Deferred Balance remaining due: OR in instalments as set out in the Schedule of Payments hereunder. In the event of default in payment of any instalment when due entire balance of principal shall at option of Vendor immediately become due and payable and shall thereafter bear interest at the rate of 12% per annum.

SCHEDULE OF PAYMENTS (use only for other than equal monthly payments)

| PMT. NO. | AMOUNT | DATE DUE | PMT. NO. | AMOUNT | DATE DUE |
|---|---|---|---|---|---|
| | $ | | | $ | |
| | $ | | | $ | |
| | $ | | | $ | |

IT IS AGREED AND DECLARED THAT THE TERMS AND CONDITIONS SET FORTH ON THE REVERSE HEREOF ARE PART OF THIS CONTRACT AND REFERENCE TO THE SAME IS HEREBY MADE. THE VALUE PLACED ON THE TRADE-IN HAS BEEN DETERMINED BY THE PARTIES ACTING IN GOOD FAITH.

COMPLETED FULLY BEFORE EXECUTION IN QUADRUPLICATE.
RECEIPT OF COPY IS HEREBY ACKNOWLEDGED AT ________ this ____ day of ________ 19 ____

VENDOR ________ By ________ PURCHASER'S SIGNATURE ________

WITNESS to Purchaser(s) Signature(s) ________ CO-PURCHASER'S SIGNATURE

ORIGINAL

NEGOTIABLE INSTRUMENT

This space to be used only for other than equal monthly payments

SCHEDULE OF PAYMENTS

| PYM'T NO | AMOUNT | DATE DUE |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

CONTRACT No

$ At (Place where note actually signed) Date 19

**FOR VALUE RECEIVED** I (We jointly and severally) promise to pay to the order of

(Vendor's Name Here)

the sum of /100 DOLLARS

at the office of **LAURENTIDE FINANCIAL CORPORATION LTD** in the city of

in monthly instalments of $ each on the same day of each successive month, the first instalment to be payable 19 the final instalment to be the amount remaining unpaid OR in instalments as set out in the Schedule of Payments herein. Each instalment, if unpaid at maturity, shall bear interest at the rate of TWELVE PER CENT. per annum from the date of maturity, and upon default in payment of any instalment upon the due date thereof all remaining instalments shall forthwith become due and payable at the option of the holder.

Purchaser Sign Here In Ink

Co-Purchaser

CONDITIONAL SALE CONTRACT

CASH PRICE

Less: CASH PAYMENT

UNPAID CASH BALANCE

The undersigned Buyer agrees to pay ... THE SIMPLICITY PATTERN CO. ... on the same day of each successive month ...

The final installment ... shall equal the ... of the deferred ... at the rate of 12% per annum.